AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 04, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 30, 2014, there were 1,426,883,895 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

June 30, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2014 - $248,923; 2013 - $248,531)	$
Other bond securities, at fair value (See Note 6)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2014 - $2,073; 2013 - $1,726)	
Other common and preferred stock, at fair value (See Note 6)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2014 - $6; 2013 - $0)	
Other invested assets (portion measured at fair value: 2014 - $8,869; 2013 - $8,598)	
Short-term investments (portion measured at fair value: 2014 - $4,310; 2013 - $6,313)	
Total investments	
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Derivative assets, at fair value	
Other assets, including restricted cash of $1,206 in 2014 and $865 in 2013 (portion measured at fair value: 2014 - $0; 2013 - $418)	
Separate account assets, at fair value	
Assets held-for-sale	
Total assets	$
Liabilities:	
Liability for unpaid claims and claims adjustment expense	$

Unearned premiums
Future policy benefits for life and accident and health insurance contracts
Policyholder contract deposits (portion measured at fair value: 2014 - $898; 2013 - $384)
Other policyholder funds (portion measured at fair value: 2014 - $8; 2013 - $0)
Derivative liabilities, at fair value
Other liabilities (portion measured at fair value: 2014 - $569; 2013 - $933)
Long-term debt (portion measured at fair value: 2014 - $5,824; 2013 - $6,747)
Separate account liabilities
Liabilities held-for-sale
Total liabilities
Contingencies, commitments and guarantees (see Note 10)

Redeemable noncontrolling interests (see Note 12)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2014 - 1,906,662,562 and 2013 - 1,906,645,689
Treasury stock, at cost; 2014 - 478,087,172 shares; 2013 - 442,582,366 shares
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale in 2013)
Total equity
Total liabilities and equity $

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

CONDENSED Consolidated Statement of Equity *(unaudited)*

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

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

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,727**	$ 2,408
Taxes	**$ 482**	$ 209
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,937**	$ 1,980
Non-cash consideration received from sale of ILFC	**$ 4,586**	$ -

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

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

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

Sale of ILFC

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

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

Use of Estimates

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

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

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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, will be eligible for presentation as a discontinued operation if they meet the new definition. The standard also requires entities to provide disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

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

Revenue Recognition

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

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

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

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Share-Based Payments with Performance Targets

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

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

3. SEGMENT INFORMATION

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

The following tables present our operations by reportable segment:

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

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

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

On May 14, 2014, we completed the sale of 100 percent of the common stock of ILFC to AerCap Ireland Limited, a wholly owned subsidiary of AerCap, in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares, valued at approximately $4.6 billion based on AerCap's closing price per share of $47.01 on May 13, 2014. Net cash proceeds to AIG were $2.4 billion after the settlement of intercompany loans, and AIG recorded pre-tax and after-tax gains of approximately $2.2 billion and $1.4 billion, respectively, for the three- and six-month periods ended June 30, 2014. In connection with the AerCap Transaction, we entered into a five-year credit agreement for a senior unsecured revolving credit facility between AerCap Ireland Capital Limited, as borrower, and AIG

Parent as lender, (the Revolving Credit Facility). The Revolving Credit Facility provides for an aggregate commitment of $1.0 billion and permits loans for general corporate purposes after the closing of the AerCap Transaction. At June 30, 2014, no amounts were outstanding under the Revolving Credit Facility.

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

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

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

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

Discontinued Operations

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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

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Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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

December 31, 2013 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[a]	Cash Collateral
Assets:					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 133	$ 3,062	$ -	$ -	$ -
Obligations of states, municipalities and political subdivisions	-	28,300	1,080	-	-
Non-U.S. governments	508	21,985	16	-	-
Corporate debt	-	143,297	1,255	-	-
RMBS	-	21,207	14,941	-	-
CMBS	-	5,747	5,735	-	-
CDO/ABS	-	4,034	6,974	-	-
Total bonds available for sale	641	227,632	30,001	-	-
Other bond securities:					
U.S. government and government sponsored entities	78	5,645	-	-	-
Obligations of states, municipalities and political subdivisions	-	121	-	-	-
Non-U.S. governments	-	2	-	-	-
Corporate debt	-	1,169	-	-	-
RMBS	-	1,326	937	-	-
CMBS	-	509	844	-	-
CDO/ABS	-	3,158	8,834	-	-
Total other bond securities	78	11,930	10,615	-	-
Equity securities available for sale:					
Common stock	3,218	-	1	-	-
Preferred stock	-	27	-	-	-
Mutual funds	408	2	-	-	-

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

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

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the three- and six-month periods ended June 30, 2014, we transferred $236 million and $298 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the six-month period ended June 30, 2014, we transferred $103 million of securities issued by the

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

During the three- and six-month periods ended June 30, 2013, we transferred $318 million and $557 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the six-month period ended June 30, 2013, we transferred $93 million of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 1 to Level 2 for U.S. government and government sponsored entities for the three-month period ended June 30, 2013. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2013.

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Changes in Level 3 Recurring Fair Value Measurements

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

(in millions)	Fair Value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
Three Months Ended June 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,042	$ -	$ 74	$ 7	$
Non-U.S. governments	17	-	-	4	
Corporate debt	1,815	9	33	(71)	7
RMBS	15,764	251	127	67	1
CMBS	5,741	17	129	(7)	
CDO/ABS	6,610	18	1	726	1
Total bonds available for sale	31,989	295	364	726	1,0
Other bond securities:					
RMBS	1,069	23	-	(32)	
CMBS	770	21	-	(40)	
CDO/ABS	8,498	334	-	(436)	
Total other bond securities	10,337	378	-	(508)	
Equity securities available for sale:					
Common stock	-	-	-	-	
Preferred stock	-	-	-	-	
Total equity securities available for sale	-	-	-	-	
Mortgage and other loans receivable	-	-	-	6	
Other invested assets	5,990	8	(5)	(15)	
Total	$ 48,316	$ 681	$ 359	$ 209	$ 1,0

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes $14 million and $37 million of net gains related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2014, respectively, and includes $25 million and $2 million of net losses related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2014, respectively.

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

Transfers of Level 3 Assets

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

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

Transfers of Level 3 Liabilities

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

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Quantitative Information About Level 3 Fair Value Measurements

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

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

			Constant default rate[a][c]	2.80% - 15.30% (8.40%)
			Yield[c]	4.90% - 10.40% (8.40%)
CMBS	6,142	Discounted cash flow	Yield[b]	0.00% - 13.53% (4.52%)
CDO/ABS - Direct Investment book	568	Binomial Expansion Technique (BET)	Recovery rate[b]	6.00% - 59.00% (24.00%)
			Diversity score[b]	6 - 30 (15.3)
			Weighted average life[b]	0.54 - 11.20 years (5.22 years)
Liabilities:				
Policyholder contract deposits	842	Discounted cash flow	Equity implied volatility[b]	6.00% - 39.00%
			Base lapse rate[b]	1.00% - 40.00%
			Dynamic lapse rate[b]	0.20% - 60.00%
			Mortality rate[b]	0.50% - 40.00%
			Utilization rate[b]	0.50% - 25.00%
Total derivative liabilities, net	853	BET	Recovery rate[b]	6.00% - 32.00% (17.00%)
			Diversity score[b]	9 - 31 (14)
			Weighted average life[b]	3.82 - 11.20 years (6.16 years)

Transfers of Level 3 Liabilities

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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.

Transfers of Level 3 Liabilities

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Investments in Certain Entities Carried at Fair Value Using Net Asset Value Per Share

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

		June 30, 2014		December 31, 2013	
(in millions)	Investment Category Includes	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 2,462**	**$ 480**	$ 2,544	$ 578
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**396**	**266**	346	86
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public	**141**	**10**	140	13

	offering or sale of the company				
Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	**168**	**46**	183	34
Other	Includes multi-strategy and mezzanine strategies	**174**	**234**	134	238
Total private equity funds		**3,341**	**1,036**	3,347	949
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**1,229**	**2**	976	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,962**	**4**	1,759	11
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**479**	**-**	612	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**645**	**22**	594	15
Emerging markets	Investments in the financial markets of developing countries	**302**	**-**	287	-
Other	Includes multi-strategy and relative value strategies	**169**	**-**	157	-
Total hedge funds		**4,786**	**28**	4,385	28
Total		**$ 8,127**	**$ 1,064**	$ 7,732	$ 977

Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two year increments. At June 30, 2014, assuming average original expected lives of 10 years for the funds, 78 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 16 percent between four and six years and 6 percent between seven and 10 years.

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The hedge fund investments included above are generally redeemable monthly (13 percent), quarterly (46 percent), semi annually (16 percent) and annually (25 percent), with redemption notices ranging from one day to 180 days. At June 30, 2014, however, investments representing approximately 49 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various contractual restrictions. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre defined end dates and are generally expected to be lifted by the end of 2015. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

Fair Value Option

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

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

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

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

We recognized losses of $11 million and $22 million during the three- and six-month periods ended June 30, 2014, respectively, and gains of $19 million and losses of $15 million during the three- and six-month periods ended June 30, 2013, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	June 30, 2014			December 31, 2013		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 6**	**$ 4**	**$ 2**	$ -	$ -	$ -
Liabilities:						
Long-term debt*	**$ 5,824**	**$ 4,393**	**$ 1,431**	$ 6,747	$ 5,231	$ 1,516

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

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Fair Value Measurements on a Non-Recurring Basis

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended June 30,		Impairment Charges Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2014**	2013	**2014**	2013
June 30, 2014								
Other investments	**$ -**	**$ -**	**$ 1,445**	**$ 1,445**	**$ 20**	$ 36	**$ 55**	$ 72
Investments in life settlements	**-**	**-**	**399**	**399**	**45**	35	**87**	78
Other assets	**-**	**-**	**-**	**-**	**-**	11	**1**	24
Total	**$ -**	**$ -**	**$ 1,844**	**$ 1,844**	**$ 65**	$ 82	**$ 143**	$ 174
December 31, 2013								
Other investments	$ -	$ -	$ 1,615	$ 1,615				
Investments in life settlements	-	-	896	896				
Other assets	-	11	48	59				
Total	$ -	$ 11	$ 2,559	$ 2,570				

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

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

Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	211	117,328	117,539	105,131
Other liabilities	-	3,993	-	3,993	3,993
Long-term debt	-	33,665	3,538	37,203	32,590
December 31, 2013					
Assets:					
Mortgage and other loans receivable	$ -	$ 219	$ 21,418	$ 21,637	$ 20,765
Other invested assets	-	529	2,705	3,234	4,194
Short-term investments	-	15,304	-	15,304	15,304
Cash	2,241	-	-	2,241	2,241
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	199	114,361	114,560	105,093
Other liabilities	-	4,869	1	4,870	4,869
Long-term debt	-	36,239	2,394	38,633	34,946

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6. INVESTMENTS

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Oth T Imp i
June 30, 2014					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 2,652	$ 187	$ (14)	$ 2,825	$
Obligations of states, municipalities and political subdivisions	28,225	1,579	(82)	29,722	
Non-U.S. governments	21,391	946	(157)	22,180	
Corporate debt	139,393	11,181	(818)	149,756	
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,369	3,599	(277)	37,691	
CMBS	11,705	791	(102)	12,394	
CDO/ABS	11,188	673	(125)	11,736	
Total mortgage-backed, asset-backed and collateralized	57,262	5,063	(504)	61,821	
Total bonds available for sale[(b)]	248,923	18,956	(1,575)	266,304	
Equity securities available for sale:					
Common stock	1,320	1,946	(11)	3,255	
Preferred stock	24	4	-	28	
Mutual funds	729	37	(1)	765	
Total equity securities available for sale	2,073	1,987	(12)	4,048	
Total	$ 250,996	$ 20,943	$ (1,587)	$ 270,352	$
December 31, 2013					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,084	$ 150	$ (39)	$ 3,195	$
Obligations of states, municipalities and political subdivisions	28,704	1,122	(446)	29,380	
Non-U.S. governments	22,045	822	(358)	22,509	

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

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

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(b) At June 30, 2014 and December 31, 2013, bonds available for sale held by us that were below investment grade or not rated totaled $33.9 billion and $32.6 billion, respectively.

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Unr
June 30, 2014						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 38**	**$ -**	**$ 416**	**$ 14**	**$ 454**	**$**
Obligations of states, municipalities and political subdivisions	**482**	**7**	**1,800**	**75**	**2,282**	
Non-U.S. governments	**1,815**	**22**	**2,211**	**135**	**4,026**	
Corporate debt	**5,007**	**62**	**17,957**	**756**	**22,964**	
RMBS	**2,681**	**42**	**4,882**	**235**	**7,563**	
CMBS	**108**	**1**	**2,566**	**101**	**2,674**	
CDO/ABS	**1,424**	**42**	**1,792**	**83**	**3,216**	
Total bonds available for sale	**11,555**	**176**	**31,624**	**1,399**	**43,179**	
Equity securities available for sale:						
Common stock	**133**	**10**	**4**	**1**	**137**	
Mutual funds	**77**	**1**	**26**	**-**	**103**	
Total equity securities available for sale	**210**	**11**	**30**	**1**	**240**	
Total	**$ 11,765**	**$ 187**	**$ 31,654**	**$ 1,400**	**$ 43,419**	**$**
December 31, 2013						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 1,101	$ 34	$ 42	$ 5	$ 1,143	$
Obligations of states, municipalities and political subdivisions	6,134	379	376	67	6,510	
Non-U.S. governments	4,102	217	710	141	4,812	
Corporate debt	38,495	2,251	4,926	647	43,421	

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

At June 30, 2014, we held 5,018 and 109 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,909 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2014 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these

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securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

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

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

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

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

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

$0.2 billion and $0.4 billion, respectively.

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

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Other Securities Measured at Fair Value

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

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

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

Net Investment Income

The following table presents the components of Net investment income:

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

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

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

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Net Realized Capital Gains and Losses

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

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

Change in Unrealized Appreciation (Depreciation) of Investments

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

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

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

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

Evaluating Investments for Other-Than-Temporary Impairments

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

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Credit Impairments

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

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

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

Purchased Credit Impaired (PCI) Securities

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

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

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

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

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

(in millions)	June 30, 2014	December 31, 2013
Outstanding principal balance	$ 16,272	$ 14,741
Amortized cost	11,559	10,110
Fair value	12,998	11,338

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

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

Pledged Investments

Secured Financing and Similar Arrangements

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

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

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

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

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

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

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

Insurance - Statutory and Other Deposits

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

Other Pledges

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

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

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7. LENDING ACTIVITIES

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

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

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

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

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

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

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

(b) Does not reflect valuation allowances.

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

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Allowance for Loan Losses

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

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

Six Months Ended June 30,	2014			2013		
(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	**(5)**	**(13)**	**(18)**	-	(26)	(26)
Recoveries of loans previously charged off	**-**	**16**	**16**	3	2	5
Net charge-offs	**(5)**	**3**	**(2)**	3	(24)	(21)
Provision for loan losses	**(8)**	**(22)**	**(30)**	8	(6)	2
Other	**-**	**1**	**1**	-	(5)	(5)
Allowance, end of period	**$ 188***	**$ 93**	**$ 281**	$ 170*	$ 211	$ 381

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

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

8. VARIABLE INTEREST ENTITIES

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

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

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

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

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

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

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

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

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

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

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Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

9. DERIVATIVES AND HEDGE ACCOUNTING

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

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

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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:

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

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

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

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

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

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

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

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

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Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Collateral

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

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

Offsetting

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

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

Hedge Accounting

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2014**	2013	**2014**	201
Interest rate contracts:				
Gain (loss) recognized in earnings on derivatives[(a)]	**$ -**	$ -	**$ 2**	$ -
Gain recognized in earnings on hedged items[(b)]	**10**	23	**75**	53
Foreign exchange contracts:[(c)]				
Gain (loss) recognized in earnings on derivatives[(d)]	**32**	(35)	**56**	(40)
Gain (loss) recognized in earnings on hedged items[(e)]	**(28)**	43	**(60)**	47
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	**(4)**	8	**(12)**	7
Equity contracts:[(f)]				
Gain (loss) recognized in earnings on derivatives	**(14)**	-	**(14)**	-
Gain (loss) recognized in earnings on hedged items	**14**	-	**14**	-
Gain (loss) recognized in earnings for amounts excluded from effectiveness testing	**-**	-	**-**	-

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

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

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

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

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

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

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

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Derivatives Not Designated as Hedging Instruments

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

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

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

Global Capital Markets Derivatives

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

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

Super Senior Credit Default Swaps

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

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

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

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

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

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

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

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

Written Single Name Credit Default Swaps

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

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

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

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All Other Derivatives

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

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

Credit Risk-Related Contingent Features

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

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

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

Hybrid Securities with Embedded Credit Derivatives

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

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

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

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

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

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

Legal Contingencies

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

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

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

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

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

On May 19, 2009, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG Common Stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG Common Stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010, the Court denied the motions to dismiss.

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

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

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

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

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

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

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

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

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

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

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

Starr International Litigation

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

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

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

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

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

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

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

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

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

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

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

False Claims Act Complaint

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

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

Litigation Matters Relating to AIG's Insurance Operations

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

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

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

Regulatory and Related Matters

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

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

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

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

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

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

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

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

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Legal Reserves

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

Other Contingencies

Liability for unpaid claims and claims adjustment expense

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

Other Commitments

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

Guarantees

Subsidiaries

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

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

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

Asset Dispositions

General

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

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

ALICO Sale

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

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

Other

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

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11. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

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

Dividends

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

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

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

Repurchase of AIG Common Stock

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

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

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

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

Accumulated Other Comprehensive Income

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

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

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

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

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

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

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Item 1 / NOTE 11. EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

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Item 1 / NOTE 12. NONCONTROLLING INTERESTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

12. NONCONTROLLING INTERESTS

The following table presents a rollforward of noncontrolling interests:

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13. EARNINGS PER SHARE (EPS)

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

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

		Three Months Ended June 30,			
(dollars in millions, except per share data)		**2014**		2013	
Numerator for EPS:					
Income from continuing operations	**$**	**3,006**	$	2,740	$
Less: Net income (loss) from continuing operations attributable to noncontrolling interests		**(37)**		27	
Income attributable to AIG common shareholders from continuing operations		**3,043**		2,713	
Income (loss) from discontinued operations, net of income tax expense		**30**		18	
Net income attributable to AIG common shareholders		**3,073**		2,731	
Denominator for EPS:					
Weighted average shares outstanding - basic		**1,442,397,111**		1,476,512,720	
Dilutive shares		**22,279,219**		5,733,898	
Weighted average shares outstanding - diluted*		**1,464,676,330**		1,482,246,618	
Income per common share attributable to AIG:					
Basic:					
Income from continuing operations	**$**	**2.11**	$	1.84	$
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01	$
Net income attributable to AIG	**$**	**2.13**	$	1.85	$
Diluted:					
Income from continuing operations	**$**	**2.08**	$	1.83	$
Income (loss) from discontinued operations	**$**	**0.02**	$	0.01	$
Net income attributable to AIG	**$**	**2.10**	$	1.84	$

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

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

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Item 1 / NOTE 14. EMPLOYEE BENEFITS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. EMPLOYEE BENEFITS

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

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

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

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

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Item 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15. INCOME TAXES

Interim Tax Calculation Method

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

Interim Tax Expense (Benefit)

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

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

Assessment of Deferred Tax Asset Valuation Allowance

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

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

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;

- the sustainability of recent operating profitability of our subsidiaries;

- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;

- the carryforward period for the net operating loss, capital loss and foreign tax credit carryforwards, including the effect of reversing taxable temporary differences; and

- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

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

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

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

Tax Examinations and Litigation

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

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

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

Accounting for Uncertainty in Income Taxes

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

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

Condensed Consolidating Balance Sheets

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

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

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

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

(b) Eliminated in consolidation.

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Income

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

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

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

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

* Eliminated in consolidation.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Comprehensive Income

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