

AMERICAN INTERNATIONAL GROUP INC  
Form 10-Q  
August 02, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

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**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, 2016**

**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**

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

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

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

Large accelerated filer      Accelerated filer      Non-accelerated filer      Smaller reporting company

(Do not check if a  
smaller reporting company)

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

As of July 29, 2016, there were 1,070,659,944 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, 2016**

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SIGNATURES

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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: 2016 - \$244,450; 2015 - \$240,968)

Other bond securities, at fair value (See Note 5)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2016 - \$1,246; 2015 - \$1,379)

Other common and preferred stock, at fair value (See Note 5)

Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2016 - \$11; 2015 - \$11)

Other invested assets (portion measured at fair value: 2016 - \$7,177; 2015 - \$8,912)

Short-term investments (portion measured at fair value: 2016 - \$3,949; 2015 - \$2,591)

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

Other assets, including restricted cash of \$191 in 2016 and \$170 in 2015

Separate account assets, at fair value

**Total assets**

**Liabilities:**

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2016 - \$4,016; 2015 - \$2,325)

Other policyholder funds (portion measured at fair value: 2016 - \$5; 2015 - \$6)

Other liabilities (portion measured at fair value: 2016 - \$241; 2015 - \$62)

Long-term debt (portion measured at fair value: 2016 - \$3,747; 2015 - \$3,670)

Separate account liabilities

**Total liabilities**

**Contingencies, commitments and guarantees (see Note 9)**

**AIG shareholders' equity:**

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2016 - 1,906,671,492 and 2015 - 1,906,671,492

Treasury stock, at cost; 2016 - 823,982,130 shares; 2015 - 712,754,875 shares of common stock

Additional paid-in capital

Retained earnings

Accumulated other comprehensive income

**Total AIG shareholders' equity**

**Non-redeemable noncontrolling interests**

**Total equity**

**Total liabilities and equity**

*See accompanying Notes to Condensed Consolidated Financial Statements.*



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

	Three Months Ended June 30,	
	2016	2015
<i>(dollars in millions, except per share data)</i>		
<b>Revenues:</b>		
Premiums	\$ 8,751	\$ 9,545
Policy fees	696	688
Net investment income	3,683	3,826
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	(65)	(148)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(29)	(4)
Net other-than-temporary impairments on available for sale securities recognized in net income	(94)	(152)
Other realized capital gains	1,136	278
Total net realized capital gains (losses)	1,042	126
Other income	552	1,514
<b>Total revenues</b>	<b>14,724</b>	<b>15,699</b>
<b>Benefits, losses and expenses:</b>		
Policyholder benefits and losses incurred	6,872	7,100
Interest credited to policyholder account balances	961	942
Amortization of deferred policy acquisition costs	1,345	1,356
General operating and other expenses	2,586	3,090
Interest expense	320	316
Loss on extinguishment of debt	7	342
Net (gain) loss on sale of divested businesses	(225)	1
<b>Total benefits, losses and expenses</b>	<b>11,866</b>	<b>13,147</b>
<b>Income from continuing operations before income tax expense</b>	<b>2,858</b>	<b>2,552</b>
<b>Income tax expense</b>	<b>924</b>	<b>777</b>
<b>Income from continuing operations</b>	<b>1,934</b>	<b>1,775</b>
<b>Income (loss) from discontinued operations, net of income tax expense</b>	<b>(10)</b>	<b>16</b>
<b>Net income</b>	<b>1,924</b>	<b>1,791</b>
<b>Less:</b>		
<b>Net income (loss) from continuing operations attributable to noncontrolling interests</b>	<b>11</b>	<b>(9)</b>
<b>Net income attributable to AIG</b>	<b>\$ 1,913</b>	<b>\$ 1,800</b>

**Income (loss) per common share attributable to AIG:**

Basic:

Income from continuing operations	\$	1.73	\$	1.34	\$
Income (loss) from discontinued operations	\$	(0.01)	\$	0.01	\$
Net income attributable to AIG	\$	1.72	\$	1.35	\$

Diluted:

Income from continuing operations	\$	1.69	\$	1.31	\$
Income (loss) from discontinued operations	\$	(0.01)	\$	0.01	\$
Net income attributable to AIG	\$	1.68	\$	1.32	\$

**Weighted average shares outstanding:**

Basic	1,113,587,927	1,329,157,366
Diluted	1,140,045,973	1,365,390,431

<b>Dividends declared per common share</b>	\$	0.320	\$	0.125	\$
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*See accompanying Notes to Condensed Consolidated Financial Statements.*

**TABLE OF CONTENTS****Item 1 / Financial statements****American International Group, Inc.****CONDENSED Consolidated Statements of Comprehensive Income (Loss) (unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
<i>(in millions)</i>	<b>2016</b>	2015	<b>2016</b>	2015
<b>Net income</b>	<b>\$1,924</b>	\$ 1,791	<b>\$1,721</b>	\$ 4,000
<b>Other comprehensive income (loss), net of tax</b>				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	<b>22</b>	(36)	<b>(327)</b>	(1,000)
Change in unrealized appreciation (depreciation) of all other investments	<b>2,409</b>	(2,991)	<b>5,836</b>	(2,400)
Change in foreign currency translation adjustments	<b>313</b>	(37)	<b>221</b>	(400)
Change in retirement plan liabilities adjustment	<b>(10)</b>	27	<b>(8)</b>	100
<b>Other comprehensive income (loss)</b>	<b>2,734</b>	(3,037)	<b>5,722</b>	(3,700)
<b>Comprehensive income (loss)</b>	<b>4,658</b>	(1,246)	<b>7,443</b>	300
<b>Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>11</b>	(9)	<b>(9)</b>	100
<b>Comprehensive income (loss) attributable to AIG</b>	<b>\$4,647</b>	\$(1,237)	<b>\$7,452</b>	\$ 1,000

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
<i>(in millions)</i>					
<b>Six Months Ended June 30, 2016</b>					
Balance, beginning of year	\$ 4,766	\$ (30,098)	\$ 81,510	\$ 30,943	\$ 2,537
Common stock issued under stock plans	-	84	(172)	-	-
Purchase of common stock	-	(6,248)	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	1,730	-
Dividends	-	-	-	(713)	-
Other comprehensive income	-	-	-	-	5,722
Current and deferred income taxes	-	-	19	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	(125)	(9)	-
Balance, end of period	\$ 4,766	\$ (36,262)	\$ 81,232	\$ 31,951	\$ 8,259
<b>Six Months Ended June 30, 2015</b>					
Balance, beginning of year	\$ 4,766	\$ (19,218)	\$ 80,958	\$ 29,775	\$ 10,617
Purchase of common stock	-	(3,947)	-	-	-
Net income attributable to AIG or noncontrolling interests	-	-	-	4,268	-
Dividends	-	-	-	(335)	-
Other comprehensive loss	-	-	-	-	(2,997)
Deferred income taxes	-	-	(12)	-	-
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	384	(1)	-
Balance, end of period	\$ 4,766	\$ (23,165)	\$ 81,330	\$ 33,707	\$ 7,620
<i>See accompanying Notes to Condensed Consolidated Financial Statements.</i>					



**TABLE OF CONTENTS****Item 1 / Financial statements****American International Group, Inc.****CONDENSED Consolidated Statements of Cash Flows**  
**(unaudited)****Six Months Ended June 30,***(in millions)*

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ <b>1,721</b>	\$ 4,268
(Income) loss from discontinued operations	<b>57</b>	(17)
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
<b>Noncash revenues, expenses, gains and losses included in income:</b>		
Net gains on sales of securities available for sale and other assets	<b>(907)</b>	(666)
Net (gain) loss on sale of divested businesses	<b>(223)</b>	7
Losses on extinguishment of debt	<b>90</b>	410
Unrealized (gains) losses in earnings - net	<b>1,130</b>	(1,425)
Equity in (income) loss from equity method investments, net of dividends or distributions	<b>145</b>	(715)
Depreciation and other amortization	<b>2,270</b>	2,410
Impairments of assets	<b>636</b>	471
<b>Changes in operating assets and liabilities:</b>		
Insurance reserves	<b>313</b>	(420)
Premiums and other receivables and payables - net	<b>(614)</b>	(1,359)
Reinsurance assets and funds held under reinsurance treaties	<b>(988)</b>	573
Capitalization of deferred policy acquisition costs	<b>(2,554)</b>	(2,880)
Current and deferred income taxes - net	<b>750</b>	1,739
Other, net	<b>(1,255)</b>	(1,903)
Total adjustments	<b>(1,207)</b>	(3,758)
<b>Net cash provided by operating activities</b>	<b>571</b>	493
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale investments	<b>13,540</b>	14,144
Other securities	<b>2,246</b>	3,998
Other invested assets	<b>3,687</b>	6,218
Maturities of fixed maturity securities available for sale	<b>12,350</b>	12,176
Principal payments received on and sales of mortgage and other loans receivable	<b>2,964</b>	2,470
Purchases of:		
Available for sale investments	<b>(27,573)</b>	(24,198)
Other securities	<b>(381)</b>	(583)
Other invested assets	<b>(1,602)</b>	(1,743)
Mortgage and other loans receivable	<b>(5,081)</b>	(4,459)

Net change in restricted cash	(78)	1,462
Net change in short-term investments	(1,755)	(2,693)
Other, net	1,419	(1,506)
<b>Net cash provided by (used in) investing activities</b>	<b>(264)</b>	<b>5,286</b>
<b>Cash flows from financing activities:</b>		
Proceeds from (payments for)		
Policyholder contract deposits	9,539	7,541
Policyholder contract withdrawals	(6,787)	(7,225)
Issuance of long-term debt	6,688	2,774
Repayments of long-term debt	(2,919)	(3,701)
Purchase of common stock	(6,248)	(3,743)
Dividends paid	(713)	(335)
Other, net	250	(877)
<b>Net cash used in financing activities</b>	<b>(190)</b>	<b>(5,566)</b>
<b>Effect of exchange rate changes on cash</b>	<b>38</b>	<b>(34)</b>
Net increase in cash	155	179
Cash at beginning of year	1,629	1,758
Change in cash of businesses held-for-sale	-	-
<b>Cash at end of period</b>	<b>\$ 1,784</b>	<b>\$ 1,937</b>

#### Supplementary Disclosure of Condensed Consolidated Cash Flow Information

##### Cash paid during the period for:

Interest	\$ 650	\$ 760
Taxes	\$ 117	\$ 338
<b>Non-cash investing/financing activities:</b>		
Interest credited to policyholder contract deposits included in financing activities	\$ 1,797	\$ 1,826
Non-cash consideration received from sale of AerCap	\$ -	\$ 500

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 global insurance organization serving customers in more than 100 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, 2015 (2015 Annual Report). The condensed consolidated financial information as of December 31, 2015 included herein has been derived from the audited Consolidated Financial Statements in the 2015 Annual Report.

Certain of our foreign subsidiaries included in the Condensed Consolidated Financial Statements report on different fiscal-period bases. The effect on our 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 considered for adjustment and/or disclosure. 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, 2016 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.

In June 2015, we sold 86.9 million ordinary shares of AerCap by means of an underwritten public offering of 71.2 million ordinary shares and a private sale of 15.7 million ordinary shares to AerCap. We received cash proceeds of approximately \$3.7 billion, reflecting proceeds of approximately \$3.4 billion from the underwritten offering and cash proceeds of \$250 million from the private sale of shares to AerCap. In connection with the closing of the private sale of shares to AerCap, we also received \$500 million of 6.50% fixed-to-floating rate junior subordinated notes issued by AerCap Global Aviation Trust and guaranteed by AerCap and certain of its subsidiaries. These notes, included in Bonds available for sale, mature in 2045 and are callable beginning in 2025. We accounted for our interest in AerCap using the equity method of accounting through the date of the June 2015 sale, and as available for sale thereafter. In August 2015, we sold our remaining 10.7 million ordinary shares of AerCap by means of an underwritten public offering and received proceeds of approximately \$500 million.

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### **Item 1 / NOTE 1. BASIS OF PRESENTATION**

## **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

### **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;
- liability for unpaid losses and loss adjustment expenses;
- 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 other invested assets, including 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 2016

### 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.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not 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)**

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

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

We adopted the standard retrospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

##### **Consolidation: Amendments to the Consolidation Analysis**

In February 2015, the FASB issued an accounting standard that affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; eliminate the presumption that a general partner should consolidate a limited partnership; affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds.

We adopted the standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

##### **Customer's Accounting for Fees Paid in a Cloud Computing Arrangement**

In April 2015, the FASB issued an accounting standard that provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not

include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles applicable to a customer's accounting for service contracts. Consequently, all software licenses will be accounted for consistent with other licenses of intangible assets.

We adopted this standard prospectively on its required effective date of January 1, 2016. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

#### Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued an accounting standard that amends the guidance for debt issuance costs by requiring such costs to be presented as a deduction to the corresponding debt liability, rather than as an asset, and for the amortization of such costs to be reported as interest expense. The amendments are intended to simplify the presentation of debt issuance costs and make it consistent with the presentation of debt discounts or premiums. The amendments, however, do not change the recognition and measurement guidance applicable to debt issuance costs.

We adopted this standard on a retrospective basis on January 1, 2016, its required effective date. Because the new standard did not affect accounting recognition or measurement of debt issuance costs, the adoption of the standard did not 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)**

##### **Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)**

In May 2015, the FASB amended guidance on fair value disclosures for investments for which fair value is measured using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in this update remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. In addition, the amendment removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share as a practical expedient.

We adopted the standard on its required effective date of January 1, 2016 on a retrospective basis. The adoption of this standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

##### **Future Application of Accounting Standards**

###### **Revenue Recognition**

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2017 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt the standard on its required effective date of January 1, 2018 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.

###### **Short Duration Insurance Contracts**

In May 2015, the FASB issued an accounting standard that requires additional disclosures (including accident year information) for short-duration insurance contracts. New disclosures about the liability for unpaid losses and loss adjustment expenses will be required of public business entities for annual periods beginning after December 15, 2015. The annual disclosures by accident year include: disaggregated net incurred and paid claims development tables segregated by business type (not required to exceed 10 years), reconciliation of total net reserves included in development tables to the reported liability for unpaid losses and loss adjustment expenses, incurred but not reported (IBNR) information, quantitative information and a qualitative description about claim frequency, and the average annual percentage payout of incurred claims. Further, the new standard requires, when applicable, disclosures about discounting liabilities for unpaid losses and loss adjustment expenses and significant changes and reasons for changes in methodologies and assumptions used to determine unpaid losses and loss adjustment expenses. In addition, the roll forward of the liability for unpaid losses and loss adjustment expenses currently disclosed in annual financial statements will be required for interim periods beginning in the first quarter of 2017. Early adoption of the new annual and interim disclosures is permitted.

We plan to adopt the standard on its required effective date. Because the new standard does not affect accounting recognition or measurement, the adoption of the standard will have no 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)**

### **Recognition and Measurement of Financial Assets and Financial Liabilities**

In January 2016, the FASB issued an accounting standard that affects the recognition, measurement, presentation, and disclosure of financial instruments. Specifically, under the new standard, equity investments (other than those accounted for using the equity method of accounting or those subject to consolidation) will be measured at fair value with changes in fair value recognized in earnings. Also, for those financial liabilities for which fair value option accounting has been elected, the new standard requires changes in fair value due to instrument-specific credit risk to be presented separately in other comprehensive income. The standard updates certain fair value disclosure requirements for financial instruments carried at amortized cost.

The standard is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption of certain provisions is permitted. We are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

### **Leases**

In February 2016, the FASB issued an accounting standard that will require lessees with lease terms of more than 12 months to recognize a right of use asset and a corresponding lease liability on their balance sheets. For income statement purposes, the FASB retained a dual model, requiring leases to be classified as either operating leases or finance leases.

The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted using a modified retrospective approach. We are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

### **Derivative Contract Novations**

In March 2016, the FASB issued an accounting standard that clarifies that a change in the counterparty (novation) to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met.



The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. 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.

#### Contingent Put and Call Options in Debt Instruments

In March 2016, the FASB issued an accounting standard that clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. The standard requires an evaluation of embedded call (put) options solely on a four-step decision sequence that requires an entity to consider whether (1) the amount paid upon settlement is adjusted based on changes in an index, (2) the amount paid upon settlement is indexed to an underlying other than interest rates or credit risk, (3) the debt involves a substantial premium or discount and (4) the put or call option is contingently exercisable.

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. 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.

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### **Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

##### **Simplifying the Transition to the Equity Method of Accounting**

In March 2016, the FASB issued an accounting standard that eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods during which the investment had been held.

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. 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.

##### **Improvements to Employee Share-Based Payment Accounting**

In March 2016, the FASB issued a standard that simplifies several aspects of the accounting for share-based compensation, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification on the statement of cash flows.

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. 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.

##### **Calculation of Credit Losses**

In June 2016, the FASB issued an accounting standard that will change how entities account for credit losses for most financial assets. The standard will replace the existing incurred loss impairment model with a new “current expected credit loss model” and will apply to financial assets subject to credit losses, those measured at amortized cost and certain off-balance sheet credit exposures. The impairment for available-for-sale debt securities will be measured in a similar manner, except that losses will be recognized as allowances rather than reductions in the amortized cost of the securities. The standard will also require additional information to be disclosed in the footnotes.

The standard is effective for interim and annual reporting periods beginning after December 15, 2019, with

early adoption permitted for annual and interim periods after December 15, 2018. We are assessing the impact of the standard on our consolidated financial condition, results of operations or cash flows.

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

We report our results of operations consistent with the manner in which our chief operating decision makers review the business to assess performance and allocate resources through two reportable segments: Commercial Insurance and Consumer Insurance as well as a Corporate and Other category. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

We evaluate performance based on revenues and pre-tax operating income (loss). Pre-tax operating income (loss) is derived by excluding certain items from net income (loss) attributable to AIG. See the table below for the items excluded from pre-tax operating income (loss).

**The following tables present our operations by reportable segment:**

<b>Three Months Ended June 30,</b>	<b>2016</b>		<b>Revenues</b>	<b>Pre-Tax Operating Income (Loss)</b>	<b>Revenues</b>
	<b>Total</b>				
<i>(in millions)</i>					
Commercial Insurance					
Property Casualty	\$	5,540	\$	791	
Mortgage Guaranty		275		187	
Institutional Markets		695		110	
Total Commercial Insurance		6,510		1,088	
Consumer Insurance					
Retirement		2,209		741	
Life		1,690		184	
Personal Insurance		2,915		179	
Total Consumer Insurance		6,814		1,104	
Corporate and Other*		450		(544)	
AIG consolidation and elimination		(205)		(28)	
Total AIG consolidated operating revenues and pre-tax operating income		13,569		1,620	1
Reconciling items from Total revenues and Pre-tax operating income					
(loss) to revenues and pre-tax income (loss):					
Changes in fair values of securities used to hedge guaranteed					

living benefits	120	120
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	(64)
Other income - net	-	5
Loss on extinguishment of debt	-	(7)
Net realized capital gains	1,042	1,042
Income (loss) from divested businesses	-	225
Non-operating litigation reserves and settlements	7	7
Reserve development related to non-operating run-off insurance business	-	-
Restructuring and other costs	-	(90)
Other	(14)	-
Revenues and pre-tax income	\$ 14,724\$	2,858\$ 1

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<b>Six Months Ended June 30,</b>  <i>(in millions)</i>	<b>2016</b>		
	Total	Pre-Tax Operating	
	Revenues	Income (Loss)	Reve
Commercial Insurance			
Property Casualty	\$ 10,818	\$ 1,511	1
Mortgage Guaranty	536	350	
Institutional Markets	1,314	116	
Total Commercial Insurance	12,668	1,977	1
Consumer Insurance			
Retirement	4,323	1,202	
Life	3,287	289	
Personal Insurance	5,736	401	
Total Consumer Insurance	13,346	1,892	1
Corporate and Other*	656	(1,277)	
AIG consolidation and elimination	(364)	(18)	
Total AIG consolidated operating revenues and pre-tax operating income	26,306	2,574	3
Reconciling items from Total revenues and Pre-tax operating income			
(loss) to revenues and pre-tax income (loss):			
Changes in fair values of securities used to hedge guaranteed living benefits	253	253	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	(24)	
Other income - net	-	12	
Loss on extinguishment of debt	-	(90)	
Net realized capital gains (losses)	(64)	(64)	
Income (loss) from divested businesses	-	223	
Non-operating litigation reserves and settlements	41	38	
Reserve development related to non-operating run-off insurance business	-	-	
Restructuring and other costs	-	(278)	
Other	(33)	-	
Revenues and pre-tax income	\$ 26,503	\$ 2,644	3

\* Corporate and Other includes income from assets held by AIG Parent and other corporate subsidiaries.

#### 4. 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 (unadjusted) 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

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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.

**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, 2016***(in millions)***Assets:**

Bonds available for sale:

	Level 1	Level 2	Level 3	Counterparty Credit Risk	Cash and Cash Equivalents	Total
U.S. government and government sponsored entities	\$ 19	\$ 2,248	\$ -	-	\$ -	\$ 2,267
Obligations of states, municipalities and political subdivisions	-	26,464	2,313	-	-	28,777
Non-U.S. governments	654	19,410	28	-	-	20,092
Corporate debt	-	141,325	836	-	-	142,161
RMBS	-	20,665	16,779	-	-	37,444
CMBS	-	12,679	2,295	-	-	14,974
CDO/ABS	-	9,299	7,075	-	-	16,374
Total bonds available for sale	673	232,090	29,326	-	-	262,089
Other bond securities:						
U.S. government and government sponsored entities	136	3,459	-	-	-	3,595
Obligations of states, municipalities and political subdivisions	-	-	-	-	-	-
Non-U.S. governments	-	55	-	-	-	55



Corporate debt	-	1,949	18	- -	1,967
RMBS	-	439	1,486	- -	1,925
CMBS	-	498	168	- -	666
CDO/ABS	-	815	6,312	- -	7,127
Total other bond securities	136	7,215	7,984	- -	15,335
Equity securities available for sale:					
Common stock	1,117	-	-	- -	1,117
Preferred stock	23	-	-	- -	23
Mutual funds	501	1	-	- -	502
Total equity securities available for sale	1,641	1	-	- -	1,642
Other equity securities	647	-	14	- -	661
Mortgage and other loans receivable	-	-	11	- -	11
Other invested assets <sup>(a)</sup>	-	2	241	- -	243

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## Derivative assets:

Interest rate contracts	-	5,014	15	-	-	5,029
Foreign exchange contracts	-	1,495	1	-	-	1,496
Equity contracts	104	123	52	-	-	279
Credit contracts	-	-	3	-	-	3
Other contracts	-	-	23	-	-	23
Counterparty netting and cash collateral	-	-	-	(2,192)	(3,233)	(5,425)
Total derivative assets	104	6,632	94	(2,192)	(3,233)	1,405
Short-term investments	2,453	1,496	-	-	-	3,949
Separate account assets	74,755	5,817	-	-	-	80,572
Total	\$ 80,409	\$ 253,253	\$ 37,670	\$ (2,192)	\$ (3,233)	\$ 365,907

**Liabilities:**

Policyholder contract deposits	\$ -	\$ 26	\$ 3,990	\$ -	\$ -	\$ 4,016
Other policyholder funds	5	-	-	-	-	5
Derivative liabilities:						
Interest rate contracts	-	2,965	61	-	-	3,026
Foreign exchange contracts	-	1,441	10	-	-	1,451
Equity contracts	-	5	-	-	-	5
Credit contracts	-	-	376	-	-	376
Other contracts	-	-	125	-	-	125
Counterparty netting and cash collateral	-	-	-	(2,192)	(738)	(2,930)
Total derivative liabilities	-	4,411	572	(2,192)	(738)	2,053
Long-term debt	-	3,680	67	-	-	3,747
Other liabilities	114	127	-	-	-	241
Total	\$ 119	\$ 8,244	\$ 4,629	\$ (2,192)	\$ (738)	\$ 10,062

December 31, 2015

(in millions)

Counterparty  
Cash  
Collateral  
Total

**Assets:**

## Bonds available for sale:

U.S. government and government sponsored entities	\$ -	\$ 1,844	\$ -	\$ -	\$ 1,844
Obligations of states, municipalities and political subdivisions	-	25,199	2,124	-	27,323
Non-U.S. governments	683	17,480	32	-	18,195
Corporate debt	-	134,618	1,370	-	135,988
RMBS	-	19,690	16,537	-	36,227
CMBS	-	10,986	2,585	-	13,571
CDO/ABS	-	8,928	6,169	-	15,097
Total bonds available for sale	683	218,745	28,817	-	248,245

Other bond securities:

U.S. government and government sponsored entities	-	3,369	-	- -	3,369
Obligations of states, municipalities and political subdivisions	-	75	-	- -	75
Non-U.S. governments	-	50	-	- -	50
Corporate debt	-	2,018	17	- -	2,035
RMBS	-	649	1,581	- -	2,230
CMBS	-	557	193	- -	750
CDO/ABS	-	1,218	7,055	- -	8,273
Total other bond securities	-	7,936	8,846	- -	16,782

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## Equity securities available for sale:

Common stock	2,401	-	-	-	-	2,401
Preferred stock	22	-	-	-	-	22
Mutual funds	491	1	-	-	-	492
Total equity securities available for sale	2,914	1	-	-	-	2,915
Other equity securities	906	1	14	-	-	921
Mortgage and other loans receivable	-	-	11	-	-	11
Other invested assets <sup>(a)</sup>	2	1	332	-	-	335
Derivative assets:						
Interest rate contracts	-	3,150	12	-	-	3,162
Foreign exchange contracts	-	766	-	-	-	766
Equity contracts	91	32	54	-	-	177
Credit contracts	-	-	3	-	-	3
Other contracts	-	2	21	-	-	23
Counterparty netting and cash collateral	-	-	-	(1,268)	(1,554)	(2,822)
Total derivative assets	91	3,950	90	(1,268)	(1,554)	1,309
Short-term investments	1,416	1,175	-	-	-	2,591
Separate account assets	73,699	5,875	-	-	-	79,574
Total	\$ 79,711	\$ 237,684	\$ 38,110	\$ (1,268)	\$ (1,554)	\$ 352,683

**Liabilities:**

Policyholder contract deposits	\$ -	\$ 36	\$ 2,289	\$ -	\$ -	\$ 2,325
Other policyholder funds	6	-	-	-	-	6
Derivative liabilities:						
Interest rate contracts	-	2,137	62	-	-	2,199
Foreign exchange contracts	-	1,197	7	-	-	1,204
Equity contracts	-	68	-	-	-	68
Credit contracts	-	-	508	-	-	508
Other contracts	-	-	69	-	-	69
Counterparty netting and cash collateral	-	-	-	(1,268)	(760)	(2,028)
Total derivative liabilities	-	3,402	646	(1,268)	(760)	2,020
Long-term debt	-	3,487	183	-	-	3,670
Other liabilities	-	62	-	-	-	62
Total	\$ 6	\$ 6,987	\$ 3,118	\$ (1,268)	\$ (760)	\$ 8,083

(a) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled \$7.0 billion and \$8.6 billion as of June 30, 2016 and December 31, 2015, respectively.

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

## 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, 2016, we transferred \$229 million and \$312 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and six-month periods ended June 30, 2016 we transferred \$16 million of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2016.

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During the three- and six-month periods ended June 30, 2015, we transferred \$190 million and \$262 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and six-month periods ended June 30, 2015, we transferred \$65 million and \$180 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2015.

**Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the three- and six-month periods ended June 30, 2016 and 2015 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, 2016 and 2015:

<i>(in millions)</i>	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe
<b>Three Months Ended June 30, 2016</b>					
<b>Assets:</b>					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	\$ 2,196	\$ 2	\$ 136	\$(21)	
Non-U.S. governments	30	-	-	2	
Corporate debt	1,024	2	7	(65)	1
RMBS	16,162	234	61	61	2
CMBS	2,368	16	10	(87)	
CDO/ABS	6,592	8	93	382	
Total bonds available for sale	28,372	262	307	272	4
Other bond securities:					
Corporate debt	18	1	-	(1)	
RMBS	1,513	14	-	(41)	
CMBS	170	-	-	(2)	
CDO/ABS	6,576	109	-	(308)	

Total other bond securities	8,277	124	-	(352)	
Equity securities available for sale:					
Common stock	-	-	-	-	
Total equity securities available for sale	-	-	-	-	
Other equity securities	15	(1)	-	-	
Mortgage and other loans receivable	11	-	-	-	
Other invested assets	263	(12)	6	(16)	
Total	\$ 36,938	\$ 373	\$ 313	\$ (96)	4

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<i>(in millions)</i>	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
<b>Liabilities:</b>					
Policyholder contract deposits	\$ 3,251\$	598\$	-	141\$	
Derivative liabilities, net:					
Interest rate contracts	48	3	-	(5)	
Foreign exchange contracts	9	1	-	(1)	
Equity contracts	(51)	(4)	-	3	
Commodity contracts	-	-	-	-	
Credit contracts	490	(28)	-	(89)	
Other contracts	121	(24)	-	5	
Total derivative liabilities, net <sup>(a)</sup>	617	(52)	-	(87)	
Long-term debt <sup>(b)</sup>	184	(2)	-	(2)	
Total	\$ 4,052\$	544\$	-	52\$	

<i>(in millions)</i>	Fair Value Beginning of Period <sup>(a)</sup>	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
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**Six Months Ended June 30, 2016****Assets:**

Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	\$ 2,124\$	2\$	194\$	(7)\$	
Non-U.S. governments	32	-	(2)	2	
Corporate debt	1,370	3	(17)	(36)	
RMBS	16,537	479	(359)	(172)	
CMBS	2,585	58	(78)	(168)	
CDO/ABS	6,169	20	43	820	
Total bonds available for sale	28,817	562	(219)	439	
Other bond securities:					
Corporate debt	17	2	-	(1)	



RMBS	1,581	(23)	-	(54)
CMBS	193	(2)	-	(23)
CDO/ABS	7,055	(24)	-	(719)
Total other bond securities	8,846	(47)	-	(797)
Equity securities available for sale:				
Common stock	-	-	-	-
Total equity securities available for sale	-	-	-	-
Other equity securities	14	-	-	-
Mortgage and other loans receivable	11	-	-	-
Other invested assets	332	(1)	1	(37)
Total	\$ 38,020	\$ 514	\$ (218)	\$ (395)

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<i>(in millions)</i>	Fair Value Beginning of Period <sup>(a)</sup>	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Transfers Out
<b>Liabilities:</b>						
Policyholder contract deposits	\$ 2,289\$	1,443\$	-\$	258\$	-\$	
Derivative liabilities, net:						
Interest rate contracts	50	7	-	(11)	-	
Foreign exchange contracts	7	2	-	-	-	
Equity contracts	(54)	-	-	2	-	
Commodity contracts	-	-	-	-	-	
Credit contracts	505	(34)	-	(98)	-	
Other contracts	48	30	-	24	-	
Total derivative liabilities, net <sup>(a)</sup>	556	5	-	(83)	-	
Long-term debt <sup>(b)</sup>	183	-	-	(3)	-	
Total	\$ 3,028\$	1,448\$	-\$	172\$	-\$	

<i>(in millions)</i>	Fair value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Transfers Out
<b>Assets:</b>						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	\$ 2,256\$	-\$	(124)\$	93\$		
Non-U.S. governments	34	-	(1)	-		
Corporate debt	1,827	14	(50)	(85)		47
RMBS	17,345	281	(99)	(430)		
CMBS	2,694	22	(40)	17		
CDO/ABS	6,453	97	(196)	(283)		
Total bonds available for sale	30,609	414	(510)	(688)		47
Other bond securities:						
Corporate debt	16	-	-	-		

Three Months Ended June 30, 2015

**Assets:**

Bonds available for sale:

Obligations of states, municipalities

and political subdivisions

Non-U.S. governments

Corporate debt

RMBS

CMBS

CDO/ABS

Total bonds available for sale

Other bond securities:

Corporate debt

RMBS	1,288	45	-	16	
CMBS	269	8	-	(54)	
CDO/ABS	7,850	265	-	(688)	
Total other bond securities	9,423	318	-	(726)	
Equity securities available for sale:					
Common stock	1	2	-	(3)	
Total equity securities available for sale	1	2	-	(3)	
Other equity securities	22	-	-	-	
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	422	62	4	(51)	
Total	\$ 40,483\$	796\$	(506)\$	(1,468)\$	42

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	Fair value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers
<b>Liabilities:</b>					
Policyholder contract deposits	\$ 1,835	\$ (736)	\$ -	\$ 133	
Derivative liabilities, net:					
Interest rate contracts	69	(4)	-	(3)	
Foreign exchange contracts	8	(2)	-	1	
Equity contracts	(66)	2	-	1	
Credit contracts	791	(13)	-	(227)	
Other contracts	59	(59)	2	14	
Total derivatives liabilities, net <sup>(a)</sup>	861	(76)	2	(214)	
Long-term debt <sup>(b)</sup>	186	13	-	(6)	
Total	\$ 2,882	\$ (799)	\$ 2	\$ (87)	

	Fair value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers
<i>(in millions)</i>					

**Six Months Ended June 30, 2015****Assets:**

Bonds available for sale:					
Obligations of states, municipalities and political subdivisions <sup>(c)</sup>	\$ 2,159	\$ 1	\$ (79)	\$ 158	
Non-U.S. governments	30	-	(1)	4	
Corporate debt	1,883	14	(33)	(146)	45
RMBS	16,805	539	(171)	(76)	
CMBS	2,696	46	(30)	47	
CDO/ABS	6,110	130	(167)	119	
Total bonds available for sale	29,683	730	(481)	106	45
Other bond securities:					
Corporate debt	-	-	-	-	1

RMBS	1,105	26	-	220	4
CMBS	369	8	-	(154)	58
CDO/ABS	7,449	397	-	(926)	64
Total other bond securities	8,923	431	-	(860)	
Equity securities available for sale:					
Common stock	1	2	-	(3)	
Total equity securities available for sale	1	2	-	(3)	
Other equity securities	-	-	-	-	2
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	1,042	472	(488)	(589)	
Total	\$ 39,655\$	1,635\$	(969)\$	(1,346)\$	1,1

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<i>(in millions)</i>	Fair value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Transfers Out
<b>Liabilities:</b>						
Policyholder contract deposits	\$ 1,509	\$ (461)	\$ -	\$ 184	\$ -	\$ -
Derivative liabilities, net:						
Interest rate contracts	74	-	-	(12)	-	-
Foreign exchange contracts	8	(3)	-	2	-	-
Equity contracts	(47)	(6)	-	(10)	-	-
Credit contracts	978	(160)	-	(267)	-	-
Other contracts	59	(73)	-	30	-	-
Total derivatives liabilities, net <sup>(a)</sup>	1,072	(242)	-	(257)	-	-
Long-term debt <sup>(b)</sup>	213	(2)	-	(18)	-	-
Total	\$ 2,794	\$ (705)	\$ -	\$ (91)	\$ -	\$ -

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

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

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

<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
<b>Three Months Ended June 30, 2016</b>				
Bonds available for sale	\$ 291	\$ (30)	\$ 1	\$ 262
Other bond securities	26	32	66	124
Other equity securities	(1)	-	-	(1)
Other invested assets	(1)	(19)	8	(12)
<b>Six Months Ended June 30, 2016</b>				
Bonds available for sale	\$ 589	\$ (29)	\$ 2	\$ 562
Other bond securities	(8)	32	(71)	(47)
Other equity securities	-	-	-	-

Other invested assets		(3)		32	(30)	(1)
<b>Three Months Ended June 30, 2015</b>						
Bonds available for sale	\$	311	\$	10	\$ 93	414
Other bond securities		23		(3)	298	318
Equity securities available for sale		-		2	-	2
Other invested assets		5		2	55	62
<b>Six Months Ended June 30, 2015</b>						
Bonds available for sale	\$	622	\$	1	\$ 107	730
Other bond securities		41		3	387	431
Equity securities available for sale		-		2	-	2
Other invested assets		(2)		419	55	472

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<i>(in millions)</i>	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
<b>Three Months Ended June 30, 2016</b>				
Policyholder contract deposits	\$ -	\$ 598	\$ -	\$ 598
Derivative liabilities, net	-	-	(52)	(52)
Long-term debt	-	-	(2)	(2)
<b>Six Months Ended June 30, 2016</b>				
Policyholder contract deposits	\$ -	\$ 1,443	\$ -	\$ 1,443
Derivative liabilities, net	-	4	1	5
Long-term debt	-	-	-	-
<b>Three Months Ended June 30, 2015</b>				
Policyholder contract deposits	\$ -	\$ (736)	\$ -	\$ (736)
Derivative liabilities, net	19	1	(96)	(76)
Long-term debt	-	-	13	13
<b>Six Months Ended June 30, 2015</b>				
Policyholder contract deposits	\$ -	\$ (461)	\$ -	\$ (461)
Derivative liabilities, net	-	(5)	(237)	(242)
Long-term debt	-	-	(2)	(2)

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above, for the three- and six-month periods ended June 30, 2016 and 2015 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

<i>(in millions)</i>	Purchases	Sales	Settlements	Purchases Sales, Issues and Settlements, Net
<b>Three Months Ended June 30, 2016</b>				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	\$ 17	\$ (7)	\$ (31)	\$ (21)
Non-U.S. governments	2	-	-	2
Corporate debt	-	(25)	(40)	(65)
RMBS	1,040	-	(979)	61
CMBS	4	(27)	(64)	(87)
CDO/ABS	612	(11)	(219)	382
Total bonds available for sale	1,675	(70)	(1,333)	272
Other bond securities:				



Corporate debt	-	-	(1)	(
RMBS	26	-	(67)	(4
CMBS	-	-	(2)	(
CDO/ABS	61	(19)	(350)	(30
Total other bond securities	87	(19)	(420)	(35

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Equity securities available for sale	-	-	-	
Other equity securities	-	-	-	
Other invested assets	9	(2)	(23)	(1)
Total assets	\$ 1,771	\$ (91)	\$ (1,776)	\$ (9)
Liabilities:				
Policyholder contract deposits	\$ -	\$ 140	\$ 1	\$ 14
Derivative liabilities, net	(1)	-	(86)	(8)
Long-term debt <sup>(b)</sup>	-	-	(2)	(1)
Total liabilities	\$ (1)	\$ 140	\$ (87)	\$ 5
<b>Three Months Ended June 30, 2015</b>				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	\$ 116	\$ -	\$ (23)	\$ 9
Non-U.S. governments	2	-	(2)	
Corporate debt	182	(10)	(257)	(8)
RMBS	446	(143)	(733)	(43)
CMBS	70	-	(53)	
CDO/ABS	282	(178)	(387)	(28)
Total bonds available for sale	1,098	(331)	(1,455)	(68)
Other bond securities:				
RMBS	64	(4)	(44)	
CMBS	-	(43)	(11)	(5)
CDO/ABS	12	(331)	(369)	(68)
Total other bond securities	76	(378)	(424)	(72)
Equity securities available for sale	-	(2)	(1)	(1)
Other invested assets	(42)	(2)	(7)	(5)
Total assets	\$ 1,132	\$ (713)	\$ (1,887)	\$ (1,46)
Liabilities:				
Policyholder contract deposits	\$ -	\$ 112	\$ 21	\$ 13
Derivative liabilities, net	(2)	-	(212)	(21)
Long-term debt <sup>(b)</sup>	-	-	(6)	(1)
Total liabilities	\$ (2)	\$ 112	\$ (197)	\$ (8)

*(in millions)***Six Months Ended June 30, 2016**

Assets:

Purchases Sales Settlements  
Purchases Sales Settlements Settlements, Net

Bonds available for sale:

Obligations of states, municipalities and political subdivisions	\$	46	\$	(7)	\$	(46)	\$	(
Non-U.S. governments		3		-		(1)		
Corporate debt		29		(25)		(40)		(3
RMBS		1,543		(58)		(1,657)		(17
CMBS		106		(58)		(216)		(16
CDO/ABS		1,151		(11)		(320)		8
Total bonds available for sale		2,878		(159)		(2,280)		4

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## Other bond securities:

Corporate debt	-	-	(1)	(1)
RMBS	89	(26)	(117)	(54)
CMBS	53	(71)	(5)	(23)
CDO/ABS	69	(36)	(752)	(719)
Total other bond securities	211	(133)	(875)	(797)
Equity securities available for sale	-	-	-	-
Other equity securities	14	-	(14)	-
Other invested assets	18	(2)	(53)	(37)
Total assets	\$ 3,121	\$ (294)	\$ (3,222)	\$ (395)
Liabilities:				
Policyholder contract deposits	\$ -	\$ 270	\$ (12)	\$ 258
Derivative liabilities, net	(3)	-	(80)	(83)
Long-term debt <sup>(b)</sup>	-	-	(3)	(3)
Total liabilities	\$ (3)	\$ 270	\$ (95)	\$ 172

**Six Months Ended June 30, 2015**

## Assets:

## Bonds available for sale:

Obligations of states, municipalities and political subdivisions <sup>(c)</sup>	\$ 223	\$ (22)	\$ (43)	\$ 158
Non-U.S. governments	8	-	(4)	4
Corporate debt	188	(60)	(274)	(146)
RMBS	1,407	(165)	(1,318)	(76)
CMBS	142	(27)	(68)	47
CDO/ABS	861	(201)	(541)	119
Total bonds available for sale	2,829	(475)	(2,248)	106
Other bond securities:				
RMBS	309	(10)	(79)	220
CMBS	-	(79)	(75)	(154)
CDO/ABS	226	(371)	(781)	(926)
Total other bond securities	535	(460)	(935)	(860)
Equity securities available for sale	-	(2)	(1)	(3)
Other invested assets	27	(587)	(29)	(589)
Total assets	\$ 3,391	\$ (1,524)	\$ (3,213)	\$ (1,346)
Liabilities:				
Policyholder contract deposits	\$ -	\$ 185	\$ (1)	\$ 184
Derivative liabilities, net	(17)	-	(240)	(257)
Long-term debt <sup>(b)</sup>	-	-	(18)	(18)

