

AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 05, 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 March 31, 2014

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

13-2592361

(State or other jurisdiction of

incorporation or organization)

(I.R.S. Employer

Identification No.)

175 Water Street, New York, New York

10038

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a
smaller reporting company)

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 April 29, 2014, there were 1,446,648,914 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

March 31, 2014

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

March 31,
December 31,

(in millions, except for share data)

2014

2013

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2014 – \$249,200; 2013 – \$248,531)

\$

262,937

\$

258,274

Other bond securities, at fair value (See Note 6)

21,718

22,623

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2014 – \$2,076; 2013 – \$1,726)

3,878

3,656

Other common and preferred stock, at fair value (See Note 6)

725

834

Mortgage and other loans receivable, net of allowance

21,569

20,765

Other invested assets (portion measured at fair value: 2014 – \$8,867; 2013 – \$8,598)

29,050

28,659

Short-term investments (portion measured at fair value: 2014 – \$3,753; 2013 – \$6,313)

17,658

21,617

Total investments

357,535

356,428

Cash

2,490

2,241

Accrued investment income

2,924

2,905

Premiums and other receivables, net of allowance

14,269

12,939

Reinsurance assets, net of allowance

25,346

23,829

Deferred income taxes

| | |
|--|---------------|
| | 21,631 |
| | 21,925 |
| Deferred policy acquisition costs | |
| | 9,217 |
| | 9,436 |
| Derivative assets, at fair value | |
| | 1,601 |
| | 1,665 |
| Other assets, including restricted cash of \$862 in 2014 and \$865 in 2013 (portion measured at fair value: 2014 – \$0; 2013 – \$418) | |
| | 8,738 |
| | 9,366 |
| Separate account assets, at fair value | |
| | 72,593 |
| Condensed Consolidated Balance Sheets (unaudited) | 20 |

| | |
|---|----------------|
| | 71,059 |
| Assets held-for-sale | |
| | 30,767 |
| | 29,536 |
| Total assets | |
| | \$ |
| | 547,111 |
| | \$ |
| | 541,329 |
| Liabilities: | |
| | |
| | |
| | |
| Liability for unpaid claims and claims adjustment expense | |
| | \$ |
| | 81,155 |
| | \$ |
| | 81,547 |
| Unearned premiums | |
| | 23,383 |

| | |
|---|----------------|
| | 21,953 |
| Future policy benefits for life and accident and health insurance contracts | |
| | 41,419 |
| | 40,653 |
| Policyholder contract deposits (portion measured at fair value: 2014 – \$831; 2013 – \$384) | |
| | 122,839 |
| | 122,016 |
| Other policyholder funds | |
| | 4,802 |
| | 5,083 |
| Derivative liabilities, at fair value | |
| | 3,039 |
| | 2,511 |
| Other liabilities (portion measured at fair value: 2014 – \$538; 2013 – \$933) | |
| | 28,138 |
| | 29,155 |
| Condensed Consolidated Balance Sheets (unaudited) | 22 |

Long-term debt (portion measured at fair value: 2014 – \$6,019; 2013 – \$6,747)

| | |
|--|----------------|
| | 39,508 |
| | 41,693 |
| Separate account liabilities | |
| | 72,593 |
| | 71,059 |
| Liabilities held-for-sale | |
| | 25,815 |
| | 24,548 |
| Total liabilities | |
| | 442,691 |
| | 440,218 |
| Contingencies, commitments and guarantees (see Note 10) | |

Redeemable noncontrolling interests (see Note 12)

27

30

AIG shareholders' equity:

Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2014 – 1,906,655,640
and

2013 – 1,906,645,689

| | |
|--|----------|
| | 4,766 |
| | 4,766 |
| Treasury stock, at cost; 2014 – 460,007,853; 2013 – 442,582,366 shares of common stock | (15,386) |
| | (14,520) |
| Additional paid-in capital | 80,975 |
| | 80,899 |
| Retained earnings | 24,393 |
| | 22,965 |
| Accumulated other comprehensive income | 9,085 |
| | 6,360 |
| Total AIG shareholders' equity | |

| | |
|---|----------------|
| | 103,833 |
| | 100,470 |
| Non-redeemable noncontrolling interests (including \$100 associated with businesses held for sale) | |
| | 560 |
| | 611 |
| Total equity | |
| | 104,393 |
| | 101,081 |
| Total liabilities and equity | |
| | \$ |
| | 547,111 |
| | \$ |
| | 541,329 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

Three Months Ended March 31,

(dollars in millions, except per share data)

2014

2013

Revenues:

Premiums

| | |
|-------------|--------------|
| | \$ |
| | 9,038 |
| | \$ |
| | 9,372 |
| Policy fees | |

692

Net investment income

4,196

4,164

Net realized capital gains (losses):

Total other-than-temporary impairments on available for sale securities

(50)

(40)

Portion of other-than-temporary impairments on available for sale

fixed maturity securities recognized in Other comprehensive income (loss)

(4)

(1)

Net other-than-temporary impairments on available for sale

securities recognized in net income

(54)

(41)

Other realized capital gains (losses)

(159)

341

Total net realized capital gains (losses)

| | |
|--------------------------|-------|
| | (213) |
| | 300 |
| Aircraft leasing revenue | |
| | 1,113 |
| | 1,074 |
| Other income | |

1,286

1,437

Total revenues

16,112

16,962

Benefits, claims and expenses:

Policyholder benefits and claims incurred

6,797

6,728

Interest credited to policyholder account balances

955

1,017

Amortization of deferred policy acquisition costs

1,305

1,286

Other acquisition and insurance expenses

2,117

2,238

Interest expense

| | |
|---------------------------|-----|
| | 479 |
| | 577 |
| Aircraft leasing expenses | |

1,096

1,031

Loss on extinguishment of debt

238

340

Net (gain) loss on sale of properties and divested businesses

(4)

-

Other expenses

856

870

Total benefits, claims and expenses

13,839

14,087

Income from continuing operations before income tax expense

2,273

2,875

Income tax expense

614

717

Income from continuing operations

1,659

2,158

Income (loss) from discontinued operations, net of income tax expense

(47)

73

Net income

1,612

2,231

Less:

Net income from continuing operations attributable to

noncontrolling interests

3

25

Net income attributable to AIG

\$
1,609

\$
2,206

Income per common share attributable to AIG:

Basic:

Income from continuing operations

\$

1.13

\$

1.44

Income (loss) from discontinued operations

\$
(0.03)

\$
0.05

Net income attributable to AIG

\$
1.10

\$
1.49

Diluted:

Income from continuing operations

\$

1.12

\$

1.44

Income (loss) from discontinued operations

\$
(0.03)

\$
0.05

Net income attributable to AIG

1.09

\$

1.49

Weighted average shares outstanding:

Basic

1,459,249,393

1,476,471,097

Diluted

1,472,510,813

1,476,678,931

Dividends declared per common share

\$
0.125

\$

-

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1 / Financial statements

American International Group, Inc.

cONDENSED Consolidated Statements of Comprehensive Income *(unaudited)*

Three Months Ended March 31,

(in millions)

| | 2014 |
|-------------------|-------------|
| | 2013 |
| Net income | \$ 1,612 |

\$

2,231

Other comprehensive income (loss), net of tax

Change in unrealized appreciation of fixed maturity investments on

which other-than-temporary credit impairments were taken

89

282

Change in unrealized appreciation (depreciation) of all other investments

2,785

(788)

Change in foreign currency translation adjustments

(158)

(273)

Change in retirement plan liabilities adjustment

9

44

Other comprehensive income (loss)

| | |
|--|-------|
| | 2,725 |
| | (735) |
| Comprehensive income | |
| | 4,337 |
| | 1,496 |
| Comprehensive income attributable to noncontrolling interests | |
| | 3 |
| | 25 |
| Comprehensive income attributable to AIG | |
| | \$ |
| cONDENSED Consolidated Statements of ComprehensiveIncome (unaudited) | 65 |

4,334

\$

1,471

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statement of Equity *(unaudited)*

Non-

Accumulated

Total AIG

redeemable

Additional

Other

Share-

Non-

Common
Treasury
Paid-in
Retained
Comprehensive
holders'
controlling
Total
Stock
Stock
Capital

(in millions)

Earnings

Income

Equity

Interests

Equity

Three Months Ended March 31, 2014

Balance, beginning of year

\$
4,766
\$
(14,520)
\$
80,899
\$
22,965
\$
6,360
\$
100,470
\$
611
\$
101,081

Purchase of common stock

-
(867)

-

-

-

(867)

-

(867)

Net income attributable to AIG or other

noncontrolling interests

| | |
|-----------|-------|
| | - |
| | - |
| | - |
| | 1,609 |
| | - |
| | 1,609 |
| | 3 |
| | 1,612 |
| Dividends | - |
| | - |
| | - |
| | (182) |

| | |
|-----------------------------------|--------------|
| | - |
| | (182) |
| | - |
| | (182) |
| Other comprehensive income (loss) | |
| | - |
| | - |
| | - |
| | - |
| | 2,725 |
| | 2,725 |
| | - |
| | 2,725 |
| Net decrease due to consolidation | |

| | |
|--|------|
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | (34) |
| | (34) |
| Contributions from noncontrolling interests | |
| | - |
| | - |
| | - |
| | - |
| | - |
| CONDENSED Consolidated Statement of Equity (unaudited) | 77 |

| | |
|--|------|
| | - |
| | 5 |
| | 5 |
| Distributions to noncontrolling interests | |
| | - |
| | - |
| | - |
| | - |
| | - |
| | - |
| | (22) |
| | (22) |
| Other | |
| | - |
| CONDENSED Consolidated Statement of Equity (unaudited) | 78 |

| | |
|--|-----------------|
| | 1 |
| | 76 |
| | 1 |
| | - |
| | 78 |
| | (3) |
| | 75 |
| Balance, end of period | \$ |
| | 4,766 |
| | \$ |
| | (15,386) |
| | \$ |
| | 80,975 |
| | \$ |
| | 24,393 |
| | \$ |
| | 9,085 |
| | \$ |
| CONDENSED Consolidated Statement of Equity (unaudited) | 79 |

103,833

\$

560

\$

104,393

Three Months Ended March 31, 2013

Balance, beginning of year

\$
4,766
\$
(13,924)
\$
80,410
\$
14,176
\$
12,574
\$
98,002

| | |
|---|--------|
| | \$ |
| | 667 |
| | \$ |
| | 98,669 |
| Net income attributable to AIG or other | |

noncontrolling interests

-

-

| | |
|--------------------------|-------|
| | - |
| | 2,206 |
| | - |
| | 2,206 |
| | 10 |
| | 2,216 |
| Other comprehensive loss | - |
| | - |
| | - |
| | - |
| | (735) |
| | (735) |

(1)

(736)

Contributions from noncontrolling interests

-

-

-

-

-

-

8

8

Distributions to noncontrolling interests

-

-

| | |
|--|------|
| | - |
| | - |
| | - |
| | - |
| | (19) |
| | (19) |
| Other | - |
| | 1 |
| | 46 |
| | - |
| | - |
| | 47 |
| | (2) |
| CONDENSED Consolidated Statement of Equity (unaudited) | 85 |

| | |
|------------------------|----------|
| | 45 |
| Balance, end of period | |
| | \$ |
| | 4,766 |
| | \$ |
| | (13,923) |
| | \$ |
| | 80,456 |
| | \$ |
| | 16,382 |
| | \$ |
| | 11,839 |
| | \$ |
| | 99,520 |
| | \$ |
| | 663 |
| | \$ |
| | 100,183 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows (unaudited)

Three Months Ended March 31,

(in millions)

| | 2014 | 2013 |
|--|-------------|-------------|
| Cash flows from operating activities: | | |
| Net income | \$ 1,612 | \$ 2,231 |
| (Income) loss from discontinued operations | | |

47

(73)

Adjustments to reconcile net income to net cash provided by (used in) operating activities:

Noncash revenues, expenses, gains and losses included in income:

Net gains on sales of securities available for sale and other assets

(246)

(339)

Net (gains) losses on sales of divested businesses

(4)

-

Net losses on extinguishment of debt

238

| | |
|--|--------------|
| | 340 |
| Unrealized (gains) losses in earnings – net | |
| | 585 |
| | (765) |
| Equity in income from equity method investments, net of dividends or distributions | |
| | (441) |
| | (442) |
| Depreciation and other amortization | |
| | 1,121 |
| | 1,203 |
| Impairments of assets | |
| | 138 |
| | 139 |
| Changes in operating assets and liabilities: | |

Property casualty and life insurance reserves

1,495

643

Premiums and other receivables and payables – net

(701)

(458)

Reinsurance assets and funds held under reinsurance treaties

(1,532)

(2,035)

Capitalization of deferred policy acquisition costs

(1,462)

(1,422)

Current and deferred income taxes – net

450

613

Other, net

(537)

216

Total adjustments

(896)

(2,307)

Net cash provided by (used in) operating activities

763

(149)

Cash flows from investing activities:

Proceeds from (payments for)

Sales or distribution of:

| | |
|---|-------|
| Available for sale investments | 6,365 |
| | 7,346 |
| Other securities | 1,725 |
| | 1,728 |
| Other invested assets | 1,041 |
| | 1,741 |
| Maturities of fixed maturity securities available for sale | 5,347 |
| | 5,617 |
| Principal payments received on and sales of mortgage and other loans receivable | |

| | |
|-------------------------------------|----------|
| | 765 |
| | 712 |
| Purchases of: | |
| | |
| | |
| Available for sale investments | |
| | (11,592) |
| | (15,290) |
| Other securities | |
| | (181) |
| | (822) |
| Other invested assets | |
| | (1,218) |
| | (1,762) |
| Mortgage and other loans receivable | |
| | (1,307) |

| | |
|--|--------------|
| | (788) |
| Net change in restricted cash | |
| | (667) |
| | 296 |
| Net change in short-term investments | |
| | 3,588 |
| | 5,479 |
| Other, net | |
| | (83) |
| | (293) |
| Net cash provided by investing activities | |
| | 3,783 |
| | 3,964 |
| Cash flows from financing activities: | |

Proceeds from (payments for)

Policyholder contract deposits

4,008

3,262

Policyholder contract withdrawals

(3,548)

(4,458)

Issuance of long-term debt

1,583

1,395

Repayments of long-term debt

(3,281)

(4,337)

| | |
|--|----------------|
| Purchase of Common Stock | (867) |
| | - |
| Dividends paid | (182) |
| | - |
| Other, net | (2,002) |
| | 420 |
| Net cash used in financing activities | (4,289) |
| | (3,718) |
| Effect of exchange rate changes on cash | (11) |
| | (36) |
| Net increase in cash | |

| | |
|--|-------|
| | 246 |
| | 61 |
| Cash at beginning of year | |
| | 2,241 |
| | 1,151 |
| Change in cash of businesses held-for-sale | |
| | 3 |
| | 15 |
| Cash at end of period | |
| | \$ |
| | 2,490 |
| | \$ |
| | 1,227 |

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:

| | | |
|--|--|-------|
| Interest | | \$ |
| | | 840 |
| | | \$ |
| | | 983 |
| Taxes | | \$ |
| | | 165 |
| | | \$ |
| | | 103 |
| Non-cash investing/financing activities: | | |
| Interest credited to policyholder contract deposits included in financing activities | | \$ |
| | | 1,052 |
| | | \$ |
| | | 1,005 |

See accompanying Notes to Condensed Consolidated Financial Statements.

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. 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 March 31, 2014 and prior to the issuance of these condensed consolidated financial statements.

Sale of ILFC

On December 16, 2013, we entered into a definitive agreement with AerCap Holdings N.V. (AerCap) and AerCap Ireland Limited (Purchaser), a wholly owned subsidiary of AerCap, for the sale of 100 percent of the common stock of International Lease Finance Corporation (ILFC) (the AerCap Transaction) for consideration consisting of \$3.0 billion in cash, a portion of which will be funded by a special dividend of \$600 million to be paid by ILFC to AIG upon consummation of the AerCap Transaction, and approximately 97.6 million newly-issued AerCap common shares. The disposition of the AerCap common shares by AIG will be subject to certain restrictions as to the amount and timing of potential sales in accordance with the definitive agreement. ILFC's results are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income. The assets and liabilities of ILFC are classified as held for sale at March 31, 2014 and 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:

- classification of ILFC as held-for-sale and related fair value measurement;

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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 this 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

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 when a creditor should be 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.

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.

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 specified 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 annual periods beginning on or after December 15, 2014, and interim periods within those years. 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.

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 table presents our operations by reportable segment:

2014

2013

Three Months Ended March 31,

Pre-tax Income (Loss)

Pre-tax Income (Loss)

(in millions)

Total Revenues

from continuing operations

Total Revenues

from continuing operations

AIG Property Casualty

Commercial Insurance

\$

5,642

\$

713

\$

5,773

\$

1,041

Consumer Insurance

3,258

| | |
|--|-------|
| | 27 |
| | 3,506 |
| | 153 |
| Other | 766 |
| | 569 |
| | 689 |
| | 420 |
| Total AIG Property Casualty | 9,666 |
| | 1,309 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 113 |

9,968

1,614

AIG Life and Retirement

Retail

2,766

665

| | |
|-------------------------------|--------------|
| | 3,003 |
| | 996 |
| Institutional | |
| | 1,585 |
| | 567 |
| | 1,737 |
| | 574 |
| Total AIG Life and Retirement | |
| | 4,351 |
| | 1,232 |
| | 4,740 |

1,570

Other Operations

Mortgage Guaranty

249

77

231

44

CONDENSED Consolidated Statements of Cash Flows(unaudited)

116

Global Capital Markets

59

29

273

227

Direct Investment book

465

355

411

312

Corporate & Other

| | |
|--|--------------|
| | 382 |
| | (824) |
| | 461 |
| | (1,008) |
| Aircraft Leasing | |
| | 1,113 |
| | 17 |
| | 1,074 |
| | 43 |
| Consolidation and elimination | |
| | (8) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 118 |

| | |
|--|--------------|
| | 1 |
| | (9) |
| | 1 |
| Total Other Operations | |
| | 2,260 |
| | |
| | (345) |
| | |
| | 2,441 |
| | |
| | (381) |
| AIG Consolidation and elimination | |
| | (165) |
| | |
| | 77 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 119 |

| | |
|------------------------|--------|
| | (187) |
| | 72 |
| Total AIG Consolidated | |
| | \$ |
| | 16,112 |
| | \$ |
| | 2,273 |
| \$ | |
| | 16,962 |
| \$ | |
| | 2,875 |

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

On December 16, 2013, we entered into a definitive agreement with AerCap and Purchaser, a wholly owned subsidiary of AerCap, for the sale of 100 percent of the common stock of ILFC (the AerCap Transaction) for consideration consisting of \$3.0 billion in cash, a portion of which will be funded by a special dividend of \$600 million to be paid by ILFC to AIG upon consummation of the transaction, and approximately 97.6 million newly issued AerCap common shares. The consideration had a value of approximately \$5.4 billion based on AerCap's pre announcement closing price per share of \$24.93 on December 13, 2013. The disposition of the AerCap common shares by AIG will be subject to certain restrictions as to the amount and timing of potential sales in accordance with the definitive agreement. In connection with the AerCap Transaction, we entered into a credit agreement for a senior unsecured revolving credit facility between the Purchaser as borrower and AIG as lender (the Revolving Credit Facility). The Revolving Credit Facility provides for an aggregate commitment of \$1 billion and permits loans for general corporate purposes after the closing of the AerCap Transaction. The AerCap Transaction was approved by AerCap shareholders on February 13, 2014 and we expect it to close in the second quarter of 2014. We determined ILFC continued to meet the criteria for held for sale accounting at March 31, 2014. Because we expect to hold approximately 46 percent of the common stock of the combined company upon closing of the transaction, ILFC's results are presented in continuing operations for all periods presented.

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

March 31,

December 31,

(in millions)

2014

2013

Assets:

Equity securities

\$

4

\$

3

Mortgage and other loans receivable, net

262

229

Flight equipment primarily under operating leases, net of accumulated depreciation

35,612

35,508

Short-term investments

1,626

| | |
|--|----------------|
| | 658 |
| Cash | |
| | 84 |
| | 88 |
| Premiums and other receivables, net of allowance | |
| | 343 |
| | 318 |
| Other assets | |
| | 2,798 |
| | 2,066 |
| Assets held-for-sale | |
| | 40,729 |
| | 38,870 |
| Less: Loss accrual | |
| | (9,962) |

| | |
|--|---------------|
| | (9,334) |
| Total assets held-for-sale | |
| | \$ |
| | 30,767 |
| | \$ |
| | 29,536 |
| Liabilities: | |
| | |
| | |
| | |
| Other liabilities | |
| | \$ |
| | 3,082 |
| | \$ |
| | 3,127 |
| Long-term debt | |
| | 22,733 |
| | |
| | 21,421 |
| Total liabilities held-for-sale | |
| | \$ |
| | 25,815 |
| | \$ |
| | 24,548 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 124 |

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 March 31,

(in millions)

2014

2013

Revenues:

Gain (loss) on sale

| | |
|---|------|
| | \$ |
| | (1) |
| | \$ |
| | 117 |
| Income from discontinued operations, before income tax expense | |
| | (1) |
| | 117 |
| Income tax expense | |
| | 46 |
| | 44 |
| Income (loss) from discontinued operations, net of income tax expense | |
| | \$ |
| | (47) |
| | \$ |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 126 |

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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.

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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:

March 31, 2014

| | |
|--|--------------|
| | Counterparty |
| | Cash |
| <i>(in millions)</i> | |
| | Level 1 |
| | Level 2 |
| | Level 3 |
| | Netting* |
| | Collateral |
| | Total |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 131 |

Assets:

Bonds available for sale:

U.S. government and government sponsored entities

| | |
|--|-------|
| | \$ |
| | 3 |
| | \$ |
| | 2,919 |
| | \$ |
| | - |
| | \$ |
| | - |
| | \$ |
| | - |
| | \$ |
| | 2,922 |

Obligations of states, municipalities and political subdivisions

| | |
|--|--------|
| | - |
| | 28,547 |
| | 2,042 |
| | - |
| | - |
| | 30,589 |

Non-U.S. governments

629

21,238

17

-

-

21,884

Corporate debt

-

145,176

1,815

-

-

146,991

RMBS

-

21,540

15,764

-

-

37,304

CMBS

-

6,354

5,741

-

-

12,095

CDO/ABS

| | |
|--------------------------------|----------------|
| | - |
| | 4,542 |
| | 6,610 |
| | - |
| | - |
| | 11,152 |
| Total bonds available for sale | |
| | 632 |
| | 230,316 |
| | 31,989 |
| | - |
| | - |
| | 262,937 |

Other bond securities:

U.S. government and government sponsored entities

28

5,366

-

-

-

5,394

Obligations of states, municipalities and political subdivisions

-

122

-

-

-

122

Non-U.S. governments

-

2

-

-

-

2

Corporate debt

-

1,108

-

-

-

1,108

RMBS

-

1,282

1,069

-

-

2,351

CMBS

-

508

770

-

-

1,278

CDO/ABS

-

2,965

8,498

-

-

11,463

Total other bond securities

28

11,353

10,337

-

-

21,718

Equity securities available for sale:

Common stock

3,078

1

-

-

-

3,079

Preferred stock

-

28

-

-

-

28

Mutual funds

767

4

-

-

-

771

Total equity securities available for sale

3,845

33

-

-

-

3,878

Other equity securities

653

72

-

-

-

725

Other invested assets

24

2,853

5,990

-

-

8,867

Derivative assets:

Interest rate contracts

12

3,750

35

-

-

3,797

Foreign exchange contracts

-

37

-

-

-

37

Equity contracts

84

34

89

-

-

207

CONDENSED Consolidated Statements of Cash Flows(unaudited)

146

Commodity contracts

-

-

1

-

-

1

Credit contracts

-

-

41

-

-

41

Other contracts

-

-

36

-

-

36

Counterparty netting and cash collateral

-

-

-

(1,680)

(838)

(2,518)

Total derivative assets

96

3,821

202

(1,680)

(838)

1,601

Short-term investments

392

3,361

-

-

-

3,753

Separate account assets

69,216

3,377

-

-

-

72,593

Other assets

-

-

-

-

-

-

Total

\$
74,886
\$
255,186
\$
48,518
\$
(1,680)
\$
(838)
\$
376,072

Liabilities:

Policyholder contract deposits

\$
-
\$
66
\$
765
\$
-
\$
-
\$
831

Derivative liabilities:

Interest rate contracts

-

4,213

133

-

-

4,346

Foreign exchange contracts

-

254

-

-

-

254

Equity contracts

-

92

1

-

-

93

Commodity contracts

-

4

-

-

-

4

Credit contracts

-

-

1,226

-

-

1,226

Other contracts

-

26

145

-

-

171

Counterparty netting and cash collateral

| | |
|------------------------------|----------------|
| | - |
| | - |
| | - |
| | (1,680) |
| | (1,375) |
| | (3,055) |
| Total derivative liabilities | - |
| | 4,589 |
| | 1,505 |
| | (1,680) |
| | (1,375) |
| | 3,039 |

Long-term debt

-

5,616

403

-

-

6,019

Other liabilities

87

451

-

-

-

538

Total

\$
87
\$
10,722
\$
2,673
\$
(1,680)
\$
(1,375)
\$
10,427

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

December 31, 2013

| | Counterparty |
|----------------------|--------------|
| | Cash |
| <i>(in millions)</i> | |
| | Level 1 |
| | Level 2 |
| | Level 3 |
| | Netting* |
| | Collateral |
| | Total |
| Assets: | |

Bonds available for sale:

U.S. government and government sponsored entities

\$

133

\$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

161

3,062

\$

-

\$

-

\$

-

\$

3,195

Obligations of states, municipalities and political subdivisions

-

28,300

1,080

-

-

29,380

Non-U.S. governments

508

21,985

16

-

-

22,509

Corporate debt

-

143,297

1,255

-

-

144,552

RMBS

-

21,207

14,941

-

-

36,148

CMBS

-

5,747

5,735

-

-

11,482

CDO/ABS

-

| | |
|--------------------------------|---------|
| | 4,034 |
| | 6,974 |
| | - |
| | - |
| | 11,008 |
| Total bonds available for sale | |
| | 641 |
| | 227,632 |
| | 30,001 |
| | - |
| | - |
| | 258,274 |
| Other bond securities: | |

U.S. government and government sponsored entities

78

5,645

-

-

-

5,723

Obligations of states, municipalities and political subdivisions

-

121

-

-

-

121

Non-U.S. governments

-

2

-

-

-

2

Corporate debt

-

1,169

-

-

-

1,169

RMBS

-

1,326

937

-

-

2,263

CMBS

-

| | |
|--|--------|
| | 509 |
| | 844 |
| | - |
| | - |
| | 1,353 |
| CDO/ABS | |
| | - |
| | 3,158 |
| | 8,834 |
| | - |
| | - |
| | 11,992 |
| Total other bond securities | |
| | 78 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 169 |

11,930

10,615

-

-

22,623

Equity securities available for sale:

Common stock

3,218

| | |
|--|-------|
| | - |
| | 1 |
| | - |
| | - |
| | 3,219 |
| Preferred stock | |
| | - |
| | 27 |
| | - |
| | - |
| | - |
| | 27 |
| Mutual funds | |
| | 408 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 171 |

| | |
|--|-------|
| | 2 |
| | - |
| | - |
| | - |
| | 410 |
| Total equity securities available for sale | |
| | 3,626 |
| | 29 |
| | 1 |
| | - |
| | - |
| | 3,656 |
| Other equity securities | |
| | 750 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 172 |

| | |
|-----------------------|-------|
| | 84 |
| | - |
| | - |
| | - |
| | 834 |
| Other invested assets | |
| | 1 |
| | 2,667 |
| | 5,930 |
| | - |
| | - |
| | 8,598 |
| Derivative assets: | |

Interest rate contracts

14

3,716

41

-

-

3,771

Foreign exchange contracts

-

52

-

-

-

52

Equity contracts

151

106

49

-

-

306

Commodity contracts

-

| | |
|------------------|----|
| | - |
| | 1 |
| | - |
| | - |
| | 1 |
| Credit contracts | |
| | - |
| | - |
| | 55 |
| | - |
| | - |
| | 55 |
| Other contracts | |
| | - |

| | |
|--|---------|
| | 1 |
| | 33 |
| | - |
| | - |
| | 34 |
| Counterparty netting and cash collateral | |
| | - |
| | - |
| | - |
| | (1,734) |
| | (820) |
| | (2,554) |
| Total derivative assets | |
| | 165 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 177 |

| | |
|-------------------------|---------|
| | 3,875 |
| | 179 |
| | (1,734) |
| | (820) |
| | 1,665 |
| Short-term investments | |
| | 332 |
| | 5,981 |
| | - |
| | - |
| | - |
| | 6,313 |
| Separate account assets | |
| | 67,708 |

| | |
|--|--------|
| | 3,351 |
| | - |
| | - |
| | - |
| | 71,059 |
| Other assets | |
| | - |
| | 418 |
| | - |
| | - |
| | - |
| | 418 |
| Total | |
| | \$ |
| | 73,301 |
| | \$ |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 179 |

255,967

\$

46,726

\$

(1,734)

\$

(820)

\$

373,440

Liabilities:

Policyholder contract deposits

\$

-

\$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

180

72

\$

312

\$

-

\$

-

\$

384

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 |
| | \$ |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 186 |

| |
|---------|
| 11,451 |
| \$ |
| 2,300 |
| \$ |
| (1,734) |
| \$ |
| (1,484) |
| \$ |
| 10,575 |

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

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 month periods ended March 31, 2014 and 2013, we transferred \$62 million and \$239 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, respectively, as they are no longer considered actively traded. For similar reasons, during the three

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

month periods ended March 31, 2014 and 2013, we transferred \$103 million and \$93 million, respectively, of securities issued by the U.S. government and U.S. government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three month periods ended March 31, 2014 and 2013.

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-month periods ended March 31, 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 March 31, 2014 and 2013:

Net

Changes in

Realized and

Unrealized Gains

Unrealized

Purchases,

(Losses) Included

Fair Value

Gains (Losses)

Other

Sales,

Gross

Gross

Fair Value

in Income on

Beginning

Included

Comprehensive

Issues and

Transfers

Transfers

End

Instruments Held

(in millions)

of Period(a)

in Income

Income (Loss)

Settlements, Net

in

out

of Period

at End of Period

Three Months Ended March 31, 2014

Assets:

Bonds available for sale:

Obligations of states, municipalities

and political subdivisions(b)

| | |
|----------------------|-------|
| | \$ |
| | 1,080 |
| | \$ |
| | - |
| | \$ |
| | 117 |
| | \$ |
| | 846 |
| | \$ |
| | - |
| | \$ |
| | (1) |
| | \$ |
| | 2,042 |
| | \$ |
| | - |
| Non-U.S. governments | |
| | 16 |
| | - |
| | (1) |
| | 2 |

| | |
|----------------|--------------|
| | - |
| | - |
| | 17 |
| | - |
| Corporate debt | |
| | 1,255 |
| | (3) |
| | 20 |
| | 4 |
| | 648 |
| | (109) |
| | 1,815 |
| | - |
| RMBS | |

14,941

244

133

557

-

(111)

15,764

-

CMBS

5,735

6

111

(50)

-

(61)

5,741

-

CDO/ABS

6,974

34

2

8

66

(474)

6,610

-

Total bonds available for sale

30,001

281

382

1,367

714

(756)

31,989

-

Other bond securities:

RMBS

937

28

-

104

-

-

1,069

16

CMBS

844

| | |
|--|-------|
| | 17 |
| | - |
| | (91) |
| | - |
| | - |
| | 770 |
| | 14 |
| CDO/ABS | 8,834 |
| | 335 |
| | - |
| | (451) |
| | - |
| | (220) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 201 |

| | |
|---------------------------------------|---------------|
| | 8,498 |
| | 166 |
| Total other bond securities | |
| | 10,615 |
| | 380 |
| | - |
| | (438) |
| | - |
| | (220) |
| | 10,337 |
| | 196 |
| Equity securities available for sale: | |

Common stock

1

-

-

-

-

(1)

| | |
|-----------------------|-------|
| | - |
| | - |
| | - |
| | (1) |
| | - |
| | - |
| Other invested assets | |
| | 5,930 |
| | 79 |
| | 54 |
| | 49 |
| | 85 |
| | (207) |
| | 5,990 |

| | |
|---------------------|----------------|
| | - |
| | \$ |
| Total | 46,547 |
| | \$ |
| | 740 |
| | \$ |
| | 436 |
| | \$ |
| | 978 |
| | \$ |
| | 799 |
| | \$ |
| | (1,184) |
| | \$ |
| | 48,316 |
| | \$ |
| | 196 |
| Liabilities: | |

Policyholder contract deposits

\$
(312)
\$
(474)
\$
(8)
\$
29
\$
-
\$
-
\$
(765)
\$

Derivative liabilities, net:

-

Interest rate contracts

(100)

(6)

-

| | |
|--|------|
| | 8 |
| | - |
| | - |
| | (98) |
| | (1) |
| Equity contracts | |
| | 49 |
| | (3) |
| | - |
| | (5) |
| | 47 |
| | - |
| | 88 |
| | (6) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 209 |

Commodity contracts

1

-

-

-

-

-

1

-

Credit contracts

(1,280)

80

-

15

CONDENSED Consolidated Statements of Cash Flows(unaudited)

210

| | |
|--|----------------|
| | - |
| | - |
| | (1,185) |
| | 94 |
| Other contracts | (109) |
| | 16 |
| | (1) |
| | (15) |
| | - |
| | - |
| | (109) |
| | 12 |
| Total derivative liabilities, net | |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 211 |

(1,439)

87

(1)

3

47

-

(1,303)

99

Long-term debt(c)

(370)

(3)

-

19

| | |
|-------|---------|
| | (70) |
| | 21 |
| | (403) |
| | 7 |
| Total | \$ |
| | (2,121) |
| | \$ |
| | (390) |
| | \$ |
| | (9) |
| | \$ |
| | 51 |
| | \$ |
| | (23) |
| | \$ |
| | 21 |
| | \$ |
| | (2,471) |
| | \$ |
| | 24 |

Net

Changes in

Realized and

Unrealized Gains

Unrealized

Purchases,

(Losses) Included

Fair Value

Gains (Losses)

Other

Sales,

Gross

Gross

Fair Value

in Income on

Beginning

Included

Comprehensive

Issues and

Transfers

Transfers

End

Instruments Held

(in millions)

of Period(a)

in Income

Income (Loss)

Settlements, Net

in

out

of Period

at End of Period

Three Months Ended March 31, 2013

Assets:

Bonds available for sale:

Obligations of states, municipalities

and political subdivisions

\$
1,024
\$
1
\$
(5)
\$
136
\$
-
\$
(137)
\$
1,019
\$

| | |
|--|-------|
| | - |
| Non-U.S. governments | |
| | 14 |
| | 1 |
| | - |
| | 2 |
| | 1 |
| | - |
| | 18 |
| | - |
| Corporate debt | |
| | 1,487 |
| | (4) |
| | 6 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 221 |

| | |
|--|--------|
| | 22 |
| | 77 |
| | (139) |
| | 1,449 |
| | - |
| RMBS | |
| | 11,662 |
| | 205 |
| | 481 |
| | (262) |
| | 10 |
| | - |
| | 12,096 |
| | - |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 222 |

CMBS

5,124

11

141

(75)

154

(40)

5,315

-

CDO/ABS

4,841

24

76

639

| | |
|--|--------|
| | 180 |
| | (183) |
| | 5,577 |
| | - |
| Total bonds available for sale | |
| | 24,152 |
| | 238 |
| | 699 |
| | 462 |
| | 422 |
| | (499) |
| | 25,474 |
| | - |
| Other bond securities: | |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 224 |

RMBS

396

22

-

74

CONDENSED Consolidated Statements of Cash Flows(unaudited)

225

238

-

730

(17)

CMBS

812

12

-

(99)

159

(108)

776

(25)

CDO/ABS

| | |
|--|-------|
| | 8,536 |
| | 284 |
| | - |
| | (436) |
| | 486 |
| | (28) |
| | 8,842 |
| | 82 |
| Total other bond securities | |
| | 9,744 |
| | 318 |
| | - |
| | (461) |
| | 883 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 227 |

(136)

10,348

40

Equity securities available for sale:

Common stock

24

CONDENSED Consolidated Statements of Cash Flows(unaudited)

228

| | |
|--|------|
| | 9 |
| | (1) |
| | (10) |
| | - |
| | - |
| | 22 |
| | - |
| Preferred stock | |
| | 44 |
| | - |
| | 5 |
| | - |
| | - |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 229 |

| | |
|--|-------|
| | - |
| | 49 |
| | - |
| Total equity securities available for sale | |
| | 68 |
| | 9 |
| | 4 |
| | (10) |
| | - |
| | - |
| | 71 |
| | - |
| Other invested assets | |
| | 5,389 |

| | |
|--|--------|
| | 61 |
| | (13) |
| | (3) |
| | 127 |
| | (94) |
| | 5,467 |
| | - |
| Total | \$ |
| | 39,353 |
| | \$ |
| | 626 |
| | \$ |
| | 690 |
| | \$ |
| | (12) |
| | \$ |
| | 1,432 |
| | \$ |
| | (729) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 231 |

\$
41,360
\$
40

Liabilities:

Policyholder contract deposits

\$
(1,257)
\$
205

\$

-

\$

5

\$

-

\$

-

\$

(1,047)

\$

28

Derivative liabilities, net:

Interest rate contracts

732

11

-

13

-

-

756

3

Equity contracts

47

28

| | |
|--|-----|
| | - |
| | (7) |
| | (2) |
| | - |
| | 66 |
| | 12 |
| Commodity contracts | |
| | 1 |
| | 1 |
| | - |
| | (1) |
| | - |
| | - |
| | 1 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 235 |

Credit contracts

-

(1,991)

175

-

41

-

-

(1,775)

214

Other contracts

(162)

7

-

| | |
|-----------------------------------|---------|
| | 16 |
| | - |
| | - |
| | (139) |
| | (12) |
| Total derivative liabilities, net | |
| | (1,373) |
| | 222 |
| | - |
| | 62 |
| | (2) |
| | - |
| | (1,091) |

| | |
|--|---------|
| | 217 |
| Long-term debt(c) | |
| | (344) |
| | (80) |
| | - |
| | 19 |
| | (2) |
| | - |
| | (407) |
| | (8) |
| Total | \$ |
| | (2,974) |
| | \$ |
| | 347 |
| | \$ |
| | - |
| | \$ |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 238 |

86
\$
(4)
\$
-
\$
(2,545)
\$
237

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(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.

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:

Net

Net Realized

Investment

Capital

Other

(in millions)

Income

Gains (Losses)

Income

Total

Three Months Ended March 31, 2014

Bonds available for sale

\$

304

\$

(36)

\$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

241

| | |
|--|------------|
| | 13 |
| | \$ |
| | 281 |
| Other bond securities | |
| | 51 |
| | 1 |
| | 328 |
| | 380 |
| Equity securities available for sale | |
| | - |
| | - |
| | - |
| | - |
| Other invested assets | |
| | 77 |
| | (4) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 242 |

| | |
|--|-------|
| | 6 |
| | 79 |
| Policyholder contract deposits | - |
| | (474) |
| | - |
| | (474) |
| Derivative liabilities, net | 15 |
| | (3) |
| | 75 |
| | 87 |
| Long-term debt | - |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 243 |

-

(3)

(3)

Three Months Ended March 31, 2013

Bonds available for sale

\$

210

\$

7

\$

21

\$

238

Other bond securities

33

CONDENSED Consolidated Statements of Cash Flows(unaudited)

244

| | |
|--|-----|
| | - |
| | 285 |
| | 318 |
| Equity securities available for sale | |
| | - |
| | 9 |
| | - |
| | 9 |
| Other invested assets | |
| | 47 |
| | (7) |
| | 21 |
| | 61 |
| Policyholder contract deposits | |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 245 |

| | |
|--|------|
| | - |
| | 205 |
| | - |
| | 205 |
| Derivative liabilities, net | |
| | - |
| | 22 |
| | 200 |
| | 222 |
| Long-term debt | |
| | - |
| | - |
| | (80) |
| | (80) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 246 |

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present the gross components of purchases, sales, issues and settlements, net, shown above, for the three months ended March 31, 2014 and 2013 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

Purchases,

Sales, Issues and

(in millions)

Purchases

Sales

Settlements

Settlements, Net(a)

Three Months Ended March 31, 2014

Assets:

Bonds available for sale:

Obligations of states, municipalities and political subdivisions(b)

\$

888

\$

(5)

\$

(37)

\$

846

Non-U.S. governments

2

-

-

| | |
|--|--------------|
| | 2 |
| Corporate debt | |
| | 56 |
| | (7) |
| | (45) |
| | 4 |
| RMBS | |
| | 1,087 |
| | (15) |
| | (515) |
| | 557 |
| CMBS | |
| | 65 |
| | (57) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 251 |

| | |
|--------------------------------|--------------|
| | (58) |
| | (50) |
| CDO/ABS | |
| | 330 |
| | - |
| | (322) |
| | 8 |
| Total bonds available for sale | |
| | 2,428 |
| | (84) |
| | (977) |
| | 1,367 |
| Other bond securities: | |

RMBS

141

(5)

(32)

104

CMBS

-

(6)

(85)

(91)

CDO/ABS

21

| | |
|--|-------|
| | (7) |
| | (465) |
| | (451) |
| Total other bond securities | |
| | 162 |
| | (18) |
| | (582) |
| | (438) |
| Equity securities available for sale | |
| | - |
| | - |
| | - |
| | - |
| Other invested assets | |
| | 296 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 254 |

| | |
|--------------|----------------|
| | - |
| | (247) |
| | 49 |
| Total assets | \$ |
| | 2,886 |
| | \$ |
| | (102) |
| | \$ |
| | (1,806) |
| | \$ |
| Liabilities: | 978 |

Policyholder contract deposits

\$

| | |
|--|------|
| | - |
| | \$ |
| | (12) |
| | \$ |
| | 41 |
| | \$ |
| | 29 |
| Derivative liabilities, net | |
| | 1 |
| | - |
| | 2 |
| | 3 |
| Long-term debt(c) | |
| | - |
| | - |
| | 19 |
| | 19 |
| Total liabilities | |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 256 |

\$
1
\$
(12)
\$
62
\$
51

Three Months Ended March 31, 2013

Assets:

Bonds available for sale:

Obligations of states, municipalities and political subdivisions

\$

158

\$

(22)

\$

-

\$

136

Non-U.S. governments

3

-

(1)

| | |
|--|-------|
| | 2 |
| Corporate debt | |
| | 97 |
| | - |
| | (75) |
| | 22 |
| RMBS | |
| | 603 |
| | (231) |
| | (634) |
| | (262) |
| CMBS | |
| | 373 |
| | (146) |
| | (302) |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 259 |

| | |
|--------------------------------|---------|
| | (75) |
| CDO/ABS | |
| | 798 |
| | (159) |
| | - |
| | 639 |
| Total bonds available for sale | |
| | 2,032 |
| | (558) |
| | (1,012) |
| | 462 |
| Other bond securities: | |

Corporate debt

-

-

-

-

RMBS

105

-

(31)

74

CMBS

19

(58)

CONDENSED Consolidated Statements of Cash Flows(unaudited)

261

| | |
|--|-------|
| | (60) |
| | (99) |
| CDO/ABS | |
| | 188 |
| | - |
| | (624) |
| | (436) |
| Total other bond securities | |
| | 312 |
| | (58) |
| | (715) |
| | (461) |
| Equity securities available for sale | |
| | 1 |
| CONDENSED Consolidated Statements of Cash Flows(unaudited) | 262 |

| | |
|-----------------------|---------|
| | (10) |
| | (1) |
| | (10) |
| Other invested assets | |
| | 243 |
| | (30) |
| | (216) |
| | (3) |
| Total assets | |
| | \$ |
| | 2,588 |
| | \$ |
| | (656) |
| | \$ |
| | (1,944) |
| | \$ |
| | (12) |
| Liabilities: | |

Policyholder contract deposits

\$

-

\$

(6)

\$

11

\$

5

Derivative liabilities, net

3

(4)

63

62

Long-term debt(c)

| | |
|-------------------|------|
| | - |
| | - |
| | 19 |
| | 19 |
| Total liabilities | \$ |
| | 3 |
| | \$ |
| | (10) |
| | \$ |
| | 93 |
| | \$ |
| | 86 |

(a) There were no issuances during the three month periods ended March 31, 2014 and 2013.

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

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

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 March 31, 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 \$23 million of net gains and \$72 million of net losses related to assets and liabilities transferred into Level 3 during the three month periods ended March 31, 2014 and 2013, respectively, and includes \$23 million and \$2 million of net gains related to assets and liabilities transferred out of Level 3 during the three month periods ended March 31, 2014 and 2013, respectively.

Transfers of Level 3 Assets

During the three month periods ended March 31, 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 being carried at fair value and no longer being accounted for using the equity method of accounting, or as a result of limited market activity due to fund imposed redemption restrictions.

During the three month periods ended March 31, 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 month periods ended March 31, 2014 and 2013.

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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:

Fair Value at

March 31,

Valuation

Range

(in millions)

2014

Technique

Unobservable Input

(Weighted Average)

Assets:

Obligations of states,

\$

1,138

Discounted cash flow

Yield(b)

4.44% - 5.30% (4.87%)

municipalities and

political subdivisions

Corporate debt

1,166

Discounted cash flow

Yield(b)

2.87% - 8.28% (5.57%)

RMBS

16,252

Discounted cash flow

Constant prepayment rate(a)(c)

0.00% - 10.13% (5.05%)

Loss severity(a)(c)

43.85% - 79.75% (61.80%)

Constant default rate(a)(c)

3.98% - 11.79% (7.89%)

Yield(c)

2.59% - 6.85% (4.72%)

Certain CDO/ABS

5,411

Discounted cash flow

Constant prepayment rate(a)(c)

5.30% - 13.30% (9.50%)

Loss severity(a)(c)

46.40% - 61.30% (53.90%)

Constant default rate(a)(c)

2.90% - 15.60% (8.40%)

Yield(c)

5.00% - 10.80% (8.90%)

CMBS

6,017

Discounted cash flow

Yield(b)

0.00% - 13.70% (5.09%)

CDO/ABS - Direct

Binomial Expansion

Recovery rate(b)

5.00% - 61.00% (25.00%)

Investment book

565

Technique (BET)

Diversity score(b)

6 - 29 (13.1)

Weighted average life(b)

1.30 - 10.50 years (5.30 years)

Liabilities:

Policyholder contract

deposits

765

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)

