AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 04, 2015

**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 March 31, 2015** | **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**

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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 (Do not check if a smaller reporting company) | Smaller reporting company |
| --- | --- | --- | --- |

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

As of April 29, 2015, there were 1,333,395,436 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, 2015

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## FORM 10-Q

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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: 2015 - $242,114; 2014 - $243,307) | $ 2 |
| Other bond securities, at fair value (See Note 6) | |
| Equity Securities: | |
| Common and preferred stock available for sale, at fair value (cost: 2015 - $1,683; 2014 - $1,930) | |
| Other common and preferred stock, at fair value (See Note 6) | |
| Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2015 - $6; 2014 - $6) | |
| Other invested assets (portion measured at fair value: 2015 - $9,196; 2014 - $9,394) | |
| Short-term investments (portion measured at fair value: 2015 - $1,208; 2014 - $1,684) | |
| Total investments | 3 |
| | |
| Cash | |
| Accrued investment income | |
| Premiums and other receivables, net of allowance | |
| Reinsurance assets, net of allowance | |
| Deferred income taxes | |
| Deferred policy acquisition costs | |
| Derivative assets, at fair value | |
| Other assets, including restricted cash of $2,072 in 2015 and $2,025 in 2014 | |
| Separate account assets, at fair value | |
| **Total assets** | $ 5 |
| **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: 2015 - $1,882; 2014 - $1,561) | **1** |
| Other policyholder funds (portion measured at fair value: 2015 - $8; 2014 - $8) | |
| Derivative liabilities, at fair value | |
| Other liabilities (portion measured at fair value: 2015 - $178; 2014 - $350) | |
| Long-term debt (portion measured at fair value: 2015 - $4,844; 2014 - $5,466) | |
| Separate account liabilities | |
| **Total liabilities** | **4** |
| **Contingencies, commitments and guarantees (see Note 10)** | |
| | |
| **AIG shareholders' equity:** | |
| Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2015 - 1,906,671,492 and 2014 - 1,906,671,492 | |
| Treasury stock, at cost; 2015 - 559,593,905 shares; 2014 - 530,744,521 shares | **(2** |
| Additional paid-in capital | |
| Retained earnings | |
| Accumulated other comprehensive income | |
| **Total AIG shareholders' equity** | **1** |
| **Non-redeemable noncontrolling interests** | |
| **Total equity** | **1** |
| **Total liabilities and equity** | **$ 5** |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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Item 1 / Financial statements

# American International Group, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

| Three Months Ended March 31, | | | | |
|---|---|---|---|---|
| *(dollars in millions, except per share data)* | | 2015 | | 2 |
| **Revenues:** | | | | |
| Premiums | $ | 8,822 | $ | 9 |
| Policy fees | | 677 | | |
| Net investment income | | 3,838 | | 4 |
| Net realized capital gains (losses): | | | | |
| Total other-than-temporary impairments on available for sale securities | | (87) | | |
| Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income | | (10) | | |
| Net other-than-temporary impairments on available for sale securities recognized in net income | | (97) | | |
| Other realized capital gains (losses) | | 1,438 | | |
| Total net realized capital gains (losses) | | 1,341 | | ( |
| Aircraft leasing revenue | | - | | 1 |
| Other income | | 1,297 | | 1 |
| **Total revenues** | | 15,975 | | 16 |
| **Benefits, losses and expenses:** | | | | |
| Policyholder benefits and losses incurred | | 6,551 | | 6 |
| Interest credited to policyholder account balances | | 935 | | |
| Amortization of deferred policy acquisition costs | | 1,350 | | 1 |
| General operating and other expenses | | 2,949 | | 3 |
| Interest expense | | 340 | | |
| Aircraft leasing expenses | | - | | 1 |
| Loss on extinguishment of debt | | 68 | | |
| Net (gain) loss on sale of properties and divested businesses | | 6 | | |
| **Total benefits, losses and expenses** | | 12,199 | | 13 |
| **Income from continuing operations before income tax expense** | | 3,776 | | 2 |
| **Income tax expense** | | 1,300 | | |
| **Income from continuing operations** | | 2,476 | | 1 |
| **Income (loss) from discontinued operations, net of income tax expense** | | 1 | | |
| **Net income** | | 2,477 | | 1 |
| **Less:** | | | | |
| **Net income from continuing operations attributable to noncontrolling interests** | | 9 | | |
| **Net income attributable to AIG** | $ | 2,468 | $ | 1 |

| | | | |
|---|---|---|---|
| **Income per common share attributable to AIG:** | | | |
| Basic: | | | |
| Income from continuing operations | **$** | **1.81** | $ |
| Loss from discontinued operations | **$** | **-** | $ (0 |
| Net income attributable to AIG | **$** | **1.81** | $ |
| Diluted: | | | |
| Income from continuing operations | **$** | **1.78** | $ |
| Loss from discontinued operations | **$** | **-** | $ (0 |
| Net income attributable to AIG | **$** | **1.78** | $ |
| **Weighted average shares outstanding:** | | | |
| Basic | | **1,365,951,690** | 1,459,249 |
| Diluted | | **1,386,263,549** | 1,472,510 |
| **Dividends declared per common share** | **$** | **0.125** | $ 0 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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Item 1 / Financial statements

# American International Group, Inc.

# CONDENSED Consolidated Statements of Comprehensive Income *(unaudited)*

| Three Months Ended March 31,<br>*(in millions)* | 2015 | 2014 |
|---|---|---|
| **Net income** | $ 2,477 | $ 1,612 |
| **Other comprehensive income, net of tax** | | |
| Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken | (72) | 89 |
| Change in unrealized appreciation of all other investments | 539 | 2,785 |
| Change in foreign currency translation adjustments | (459) | (158) |
| Change in retirement plan liabilities adjustment | 29 | 9 |
| **Other comprehensive income** | 37 | 2,725 |
| **Comprehensive income** | 2,514 | 4,337 |
| **Comprehensive income attributable to noncontrolling interests** | 6 | 3 |
| **Comprehensive income attributable to AIG** | $ 2,508 | $ 4,334 |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

**Item 1 / Financial statements**

# American International Group, Inc.

## CONDENSED CONSOLIDATED Statement of Equity *(unaudited)*

| *(in millions)* | Common Stock | Treasury Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Total AIG Share-holders' Equity | |
|---|---|---|---|---|---|---|---|
| **Three Months Ended March 31, 2015** | | | | | | | |
| Balance, beginning of year | **$ 4,766** | **$ (19,218)** | **$ 80,958** | **$ 29,775** | **$ 10,617** | **$ 106,898** | **$** |
| Purchase of common stock | **-** | **(1,602)** | **-** | **-** | **-** | **(1,602)** | |
| Net income attributable to AIG or other noncontrolling interests | **-** | **-** | **-** | **2,468** | **-** | **2,468** | |
| Dividends | **-** | **-** | **-** | **(170)** | **-** | **(170)** | |
| Other comprehensive income (loss) | **-** | **-** | **-** | **-** | **40** | **40** | |
| Net increase due to deconsolidation | **-** | **-** | **-** | **-** | **-** | **-** | |
| Contributions from noncontrolling interests | **-** | **-** | **-** | **-** | **-** | **-** | |
| Distributions to noncontrolling interests | **-** | **-** | **-** | **-** | **-** | **-** | |
| Other | **-** | **-** | **345** | **-** | **-** | **345** | |
| Balance, end of period | **$ 4,766** | **$ (20,820)** | **$ 81,303** | **$ 32,073** | **$ 10,657** | **$ 107,979** | **$** |
| Three Months Ended March 31, 2014 | | | | | | | |
| Balance, beginning of year | $ 4,766 | $ (14,520) | $ 80,899 | $ 22,965 | $ 6,360 | $ 100,470 | $ |
| Purchase of common stock | - | (867) | - | - | - | (867) | |
| Net income attributable to AIG or other noncontrolling interests | - | - | - | 1,609 | - | 1,609 | |
| Dividends | - | - | - | (182) | - | (182) | |
| Other comprehensive income (loss) | - | - | - | - | 2,725 | 2,725 | |
| Net decrease due to consolidation | - | - | - | - | - | - | |
| Contributions from noncontrolling interests | - | - | - | - | - | - | |
| Distributions to noncontrolling interests | - | - | - | - | - | - | |
| Other | - | 1 | 76 | 1 | - | 78 | |
| Balance, end of period | $ 4,766 | $ (15,386) | $ 80,975 | $ 24,393 | $ 9,085 | $ 103,833 | $ |

*See accompanying Notes to Condensed Consolidated Financial Statements.*

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Item 1 / Financial statements

# American International Group, Inc.

## CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

| Three Months Ended March 31, *(in millions)* | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Net income | $ 2,477 | $ 1,612 |
| (Income) loss from discontinued operations | (1) | 47 |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| **Noncash revenues, expenses, gains and losses included in income:** | | |
| Net gains on sales of securities available for sale and other assets | (974) | (246) |
| Net (gain) loss on sale of divested businesses | 6 | (4) |
| Net losses on extinguishment of debt | 68 | 238 |
| Unrealized losses in earnings - net | 457 | 585 |
| Equity in income from equity method investments, net of dividends or distributions | (362) | (441) |
| Depreciation and other amortization | 1,226 | 1,121 |
| Impairments of assets | 212 | 138 |
| **Changes in operating assets and liabilities:** | | |
| Insurance reserves | (295) | 1,495 |
| Premiums and other receivables and payables - net | (572) | (701) |
| Reinsurance assets and funds held under reinsurance treaties | (272) | (1,532) |
| Capitalization of deferred policy acquisition costs | (1,439) | (1,462) |
| Current and deferred income taxes - net | 1,161 | 450 |
| Other, net | (1,304) | (537) |
| Total adjustments | (2,088) | (896) |
| **Net cash provided by operating activities** | 388 | 763 |
| **Cash flows from investing activities:** | | |
| Proceeds from (payments for) | | |
| Sales or distribution of: | | |
| Available for sale investments | 6,189 | 6,365 |
| Other securities | 1,094 | 1,725 |
| Sales or distributions of other invested assets (including flight equipment) | 1,648 | 1,041 |
| Maturities of fixed maturity securities available for sale | 5,251 | 5,347 |
| Principal payments received on and sales of mortgage and other loans receivable | 1,047 | 765 |
| Purchases of: | | |
| Available for sale investments | (9,844) | (11,592) |
| Other securities | (476) | (181) |
| Purchases of other invested assets (including flight equipment) | (1,132) | (1,218) |
| Mortgage and other loans receivable | (1,657) | (1,307) |

| | | |
|---|---|---|
| Net change in restricted cash | **(47)** | (667) |
| Net change in short-term investments | **(804)** | 3,588 |
| Other, net | **(955)** | (83) |
| **Net cash provided by investing activities** | **314** | 3,783 |
| **Cash flows from financing activities:** | | |
| Proceeds from (payments for) | | |
| Policyholder contract deposits | **3,713** | 4,008 |
| Policyholder contract withdrawals | **(3,533)** | (3,548) |
| Issuance of long-term debt | **2,585** | 1,583 |
| Repayments of long-term debt | **(1,893)** | (3,281) |
| Purchase of Common Stock | **(1,398)** | (867) |
| Dividends paid | **(170)** | (182) |
| Other, net | **92** | (2,002) |
| **Net cash used in financing activities** | **(604)** | (4,289) |
| **Effect of exchange rate changes on cash** | **(33)** | (11) |
| Net increase in cash | **65** | 246 |
| Cash at beginning of year | **1,758** | 2,241 |
| Change in cash of businesses held-for-sale | **-** | 3 |
| **Cash at end of period** | **$ 1,823** | $ 2,490 |

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

| | | |
|---|---|---|
| **Cash paid during the period for:** | | |
| Interest | **$ 307** | $ 840 |
| Taxes | **$ 140** | $ 165 |
| **Non-cash investing/financing activities:** | | |
| Interest credited to policyholder contract deposits included in financing activities | **$ 937** | $ 1,052 |

*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, 2014 (2014 Annual Report). The condensed consolidated financial information as of December 31, 2014 included herein has been derived from audited Consolidated Financial Statements in the 2014 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, 2015 and prior to the issuance of these Condensed Consolidated Financial Statements.

### Sale of ILFC

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

Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of $47.01 on May 13, 2014. ILFC's results of operations are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income through the date of the completion of the sale.

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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 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 2015

#### Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

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

We adopted the standard on its required effective date of January 1, 2015. The adoption of this standard had no 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)

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a

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

We adopted the standard on its required effective date of January 1, 2015 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

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

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

We adopted the standard on its required effective date of January 1, 2015 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**

### Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and other agreements that are governed under other GAAP guidance, but 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, 2016 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is not permitted. We plan to adopt the standard on its required effective date of January 1, 2017 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

### 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.

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

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

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**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 in addition to 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 revenue 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 items excluded from pre-tax operating income (loss).

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

| | **2015** | | 2014 |
|---|---|---|---|
| **Three Months Ended March 31,** *(in millions)* | Total Revenues | Pre-Tax Operating Income (Loss) | Total Revenues |
| Commercial Insurance | | | |
| Property Casualty | **$ 5,956** | **$ 1,170** | $ 6,112 |
| Mortgage Guaranty | **264** | **145** | 248 |
| Institutional Markets | **624** | **147** | 695 |
| Total Commercial Insurance | **6,844** | **1,462** | 7,055 |
| Consumer Insurance | | | |
| Retirement | **2,388** | **800** | 2,485 |
| Life | **1,613** | **171** | 1,610 |
| Personal Insurance | **2,862** | **(26)** | 3,064 |
| Total Consumer Insurance | **6,863** | **945** | 7,159 |
| Corporate and Other | | | |
| Direct Investment book | **178** | **145** | 519 |
| Global Capital Markets | **137** | **114** | 59 |
| AIG Parent and Other* | **968** | **(120)** | 523 |
| Consolidation and elimination | **(273)** | **(1)** | (133) |
| Total Corporate and Other | **1,010** | **138** | 968 |
| AIG Consolidation and elimination | **(127)** | **(18)** | (82) |

| | | | | |
|---|---|---|---|---|
| Total AIG Consolidated revenues and pre-tax operating income | $ | 14,590$ | 2,527$ | 15,100$ |
| Reconciling Items from pre-tax operating income to pre-tax income: | | | | |
| Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense | | 44 | 44 | 76 |
| Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains | | - | (54) | - |
| Loss on extinguishment of debt | | - | (68) | - |
| Net realized capital gains | | 1,341 | 1,341 | (152) |
| Income from divested businesses | | (15) | (21) | 1,113 |
| Legal settlements related to legacy crisis matters | | 15 | 15 | 26 |
| Legal reserves related to legacy crisis matters | | - | (8) | - |
| Pre-tax income | $ | 15,975$ | 3,776$ | 16,163$ |

* Includes Run-off Insurance Lines and Other Businesses.

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Item 1 / NOTE 4. DISCONTINUED OPERATIONS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

## 4. DISCONTINUED OPERATIONS

### 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)* | | 2015 | | 2014 |
|---|---|---|---|---|
| **Revenues:** | | | | |
| Gain (loss) on sale | $ | 1 | $ | (1) |
| Gain (loss) from discontinued operations, before income tax expense | | 1 | | (1) |
| Income tax expense | | - | | 46 |
| Income (loss) from discontinued operations, net of income tax expense | $ | 1 | $ | (47) |

## 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 (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 prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals.

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

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### 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, 2015** *(in millions)* | | Level 1 | Level 2 | Level 3 | Counterparty Netting* | Cash Collateral | T |
|---|---|---|---|---|---|---|---|
| **Assets:** | | | | | | | |
| Bonds available for sale: | | | | | | | |
| U.S. government and government sponsored entities | $ | 65$ | 2,709$ | -$ | -$ | -$ | 2 |
| Obligations of states, municipalities and political subdivisions | | - | 25,579 | 2,256 | - | - | 27 |
| Non-U.S. governments | | 716 | 19,139 | 34 | - | - | 19 |
| Corporate debt | | - | 142,315 | 1,827 | - | - | 144 |
| RMBS | | - | 20,387 | 17,345 | - | - | 37 |
| CMBS | | - | 10,749 | 2,694 | - | - | 13 |
| CDO/ABS | | - | 8,554 | 6,453 | - | - | 15 |
| Total bonds available for sale | | 781 | 229,432 | 30,609 | - | - | 260 |
| Other bond securities: | | | | | | | |
| U.S. government and government sponsored entities | | - | 5,483 | - | - | - | 5 |
| Obligations of states, municipalities and political subdivisions | | - | 76 | - | - | - | |
| Non-U.S. governments | | - | 2 | - | - | - | |
| Corporate debt | | - | 551 | 16 | - | - | |
| RMBS | | - | 888 | 1,288 | - | - | 2 |
| CMBS | | - | 676 | 269 | - | - | |
| CDO/ABS | | - | 1,914 | 7,850 | - | - | 9 |
| Total other bond securities | | - | 9,590 | 9,423 | - | - | 19 |
| Equity securities available for sale: | | | | | | | |
| Common stock | | 3,056 | 3 | 1 | - | - | 3 |
| Preferred stock | | 25 | - | - | - | - | |
| Mutual funds | | 680 | 1 | - | - | - | |
| Total equity securities available for sale | | 3,761 | 4 | 1 | - | - | 3 |
| Other equity securities | | 1,076 | 2 | 22 | - | - | 1 |
| Mortgage and other loans receivable | | - | - | 6 | - | - | |
| Other invested assets | | 2 | 4,096 | 5,098 | - | - | 9 |
| Derivative assets: | | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Interest rate contracts | 1 | 4,806 | 14 | - | - | 4 |
| Foreign exchange contracts | - | 971 | - | - | - | |
| Equity contracts | 109 | 7 | 68 | - | - | |
| Commodity contracts | - | - | - | - | - | |
| Credit contracts | - | - | 4 | - | - | |
| Other contracts | - | - | 29 | - | - | |
| Counterparty netting and cash collateral | - | - | - | (2,476) | (1,912) | (4, |
| Total derivative assets | 110 | 5,784 | 115 | (2,476) | (1,912) | 1 |
| Short-term investments | 566 | 642 | - | - | - | 1 |
| Separate account assets | 76,673 | 5,466 | - | - | - | 82 |
| Total | $ 82,969 | $255,016 | $ 45,274 | $ (2,476) | $(1,912) | $378 |
| **Liabilities:** | | | | | | |
| Policyholder contract deposits | $ - | $ 47 | $ 1,835 | $ - | $ - | $ 1 |
| Other policyholder funds | - | 8 | - | - | - | |

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**Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS**

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Derivative liabilities: | | | | | | |
| Interest rate contracts | - | 4,073 | 83 | - | - | 4,156 |
| Foreign exchange contracts | - | 1,445 | 8 | - | - | 1,453 |
| Equity contracts | - | 87 | 2 | - | - | 89 |
| Commodity contracts | - | 6 | - | - | - | 6 |
| Credit contracts | - | - | 795 | - | - | 795 |
| Other contracts | - | - | 88 | - | - | 88 |
| Counterparty netting and cash collateral | - | - | - | (2,476) | (1,460) | (3,936) |
| Total derivative liabilities | - | 5,611 | 976 | (2,476) | (1,460) | 2,651 |
| Long-term debt | - | 4,658 | 186 | - | - | 4,844 |
| Other liabilities | - | 178 | - | - | - | 178 |
| Total | $ - | $ 10,502 | $ 2,997 | $ (2,476) | $ (1,460) | $ 9,563 |

| December 31, 2014<br>*(in millions)* | Level 1 | Level 2 | Level 3 | Counterparty Netting | Cash Collateral | T |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Bonds available for sale: | | | | | | |
| U.S. government and government sponsored entities | $ 322 | $ 2,670 | $ - | $ - | $ - | $ 2 |
| Obligations of states, municipalities and political subdivisions | - | 25,500 | 2,159 | - | - | 27 |
| Non-U.S. governments | 742 | 20,323 | 30 | - | - | 21 |
| Corporate debt | - | 142,550 | 1,883 | - | - | 144 |
| RMBS | - | 20,715 | 16,805 | - | - | 37 |
| CMBS | - | 10,189 | 2,696 | - | - | 12 |
| CDO/ABS | - | 7,165 | 6,110 | - | - | 13 |
| Total bonds available for sale | 1,064 | 229,112 | 29,683 | - | - | 259 |
| Other bond securities: | | | | | | |
| U.S. government and government sponsored entities | 130 | 5,368 | - | - | - | 5 |
| Obligations of states, municipalities and political subdivisions | - | 122 | - | - | - | |
| Non-U.S. governments | - | 2 | - | - | - | |
| Corporate debt | - | 719 | - | - | - | |
| RMBS | - | 989 | 1,105 | - | - | 2 |
| CMBS | - | 708 | 369 | - | - | 1 |
| CDO/ABS | - | 2,751 | 7,449 | - | - | 10 |
| Total other bond securities | 130 | 10,659 | 8,923 | - | - | 19 |
| Equity securities available for sale: | | | | | | |
| Common stock | 3,626 | 2 | 1 | - | - | 3 |
| Preferred stock | 25 | - | - | - | - | |
| Mutual funds | 738 | 3 | - | - | - | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total equity securities available for sale | 4,389 | 5 | 1 | - | - | 4 |
| Other equity securities | 1,024 | 25 | - | - | - | 1 |
| Mortgage and other loans receivable | - | - | 6 | - | - | |
| Other invested assets | 2 | 3,742 | 5,650 | - | - | 9 |
| Derivative assets: | | | | | | |
| Interest rate contracts | 2 | 3,729 | 12 | - | - | 3 |
| Foreign exchange contracts | - | 839 | 1 | - | - | |
| Equity contracts | 98 | 58 | 51 | - | - | |
| Commodity contracts | - | - | - | - | - | |
| Credit contracts | - | - | 4 | - | - | |
| Other contracts | - | - | 31 | - | - | |
| Counterparty netting and cash collateral | - | - | - | (2,102) | (1,119) | (3, |
| Total derivative assets | 100 | 4,626 | 99 | (2,102) | (1,119) | 1 |

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## Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

| | | | | | | |
|---|---|---|---|---|---|---|
| Short-term investments | 584 | 1,100 | - | - | - | 1,684 |
| Separate account assets | 73,939 | 6,097 | - | - | - | 80,036 |
| Total | $ 81,232 | $ 255,366 | $ 44,362 | $ (2,102) | $ (1,119) | $ 377,739 |
| **Liabilities:** | | | | | | |
| Policyholder contract deposits | $ - | $ 52 | $ 1,509 | $ - | $ - | $ 1,561 |
| Other policyholder funds | - | 8 | - | - | - | 8 |
| Derivative liabilities: | | | | | | |
| Interest rate contracts | - | 3,047 | 86 | - | - | 3,133 |
| Foreign exchange contracts | - | 1,482 | 9 | - | - | 1,491 |
| Equity contracts | - | 98 | 4 | - | - | 102 |
| Commodity contracts | - | 6 | - | - | - | 6 |
| Credit contracts | - | - | 982 | - | - | 982 |
| Other contracts | - | - | 90 | - | - | 90 |
| Counterparty netting and cash collateral | - | - | - | (2,102) | (1,429) | (3,531) |
| Total derivative liabilities | - | 4,633 | 1,171 | (2,102) | (1,429) | 2,273 |
| Long-term debt | - | 5,253 | 213 | - | - | 5,466 |
| Other liabilities | 34 | 316 | - | - | - | 350 |
| Total | $ 34 | $ 10,262 | $ 2,893 | $ (2,102) | $ (1,429) | $ 9,658 |

* 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, 2015 and 2014, we transferred $72 million and $62 milion, 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-month periods ended March 31, 2015 and 2014, we transferred $115 million and $103 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-month periods ended March 31, 2015 and 2014, respectively.

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## Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Changes in Level 3 Recurring Fair Value Measurements

**The following tables present changes during the three-month periods ended March 31, 2015 and 2014 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, 2015 and 2014:**

| *(in millions)* | 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 |
|---|---|---|---|---|---|
| **Three Months Ended March 31, 2015** | | | | | |
| **Assets:** | | | | | |
| Bonds available for sale: | | | | | |
| Obligations of states, municipalities and political subdivisions | $ 2,159 | $ 1 | $ 45 | $ 65 | $ |
| Non-U.S. governments | 30 | - | - | 4 | |
| Corporate debt | 1,883 | - | 17 | (61) | 4 |
| RMBS | 16,805 | 258 | (72) | 354 | |
| CMBS | 2,696 | 24 | 10 | 30 | |
| CDO/ABS | 6,110 | 33 | 29 | 402 | |
| Total bonds available for sale | 29,683 | 316 | 29 | 794 | 4 |
| Other bond securities: | | | | | |
| Corporate debt | - | - | - | - | [illegible] |
| RMBS | 1,105 | (19) | - | 204 | 2 |
| CMBS | 369 | - | - | (100) | |
| CDO/ABS | 7,449 | 132 | - | (238) | 58 |
| Total other bond securities | 8,923 | 113 | - | (134) | 62 |
| Equity securities available for sale: | | | | | |
| Common stock | 1 | - | - | - | |
| Total equity securities available for sale | 1 | - | - | - | |
| Other equity securities | - | - | - | - | 2 |
| Mortgage and other loans receivable | 6 | - | - | - | |
| Other invested assets | 5,650 | 446 | (511) | (494) | |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ 44,263 | $ 875 | $ (482) | $ 166 | $ 69 |
| **Liabilities:** | | | | | |
| Policyholder contract deposits | $ (1,509) | $ (275) | $ - | $ (51) | $ |
| Derivative liabilities, net: | | | | | |
| Interest rate contracts | (74) | (4) | - | 9 | |
| Foreign exchange contracts | (8) | 1 | - | (1) | |
| Equity contracts | 47 | 8 | - | 11 | |
| Commodity contracts | - | - | - | - | |
| Credit contracts | (978) | 147 | - | 40 | |
| Other contracts | (59) | 14 | 2 | (16) | |
| Total derivative liabilities, net[(a)] | (1,072) | 166 | 2 | 43 | |
| Long-term debt[(b)] | (213) | 15 | - | 12 | |
| Total | $ (2,794) | $ (94) | $ 2 | $ 4 | $ |

| *(in millions)* | 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 |
|---|---|---|---|---|---|
| **Three Months Ended March 31, 2014** | | | | | |
| **Assets:** | | | | | |
| Bonds available for sale: | | | | | |
| Obligations of states, municipalities and political subdivisions[(c)] | $ 1,080 | $ - | $ 117 | $ 846 | $ |
| Non-U.S. governments | 16 | - | (1) | 2 | |
| Corporate debt | 1,255 | (3) | 20 | 4 | 6 |
| RMBS | 14,941 | 244 | 133 | 557 | |
| CMBS | 5,735 | 6 | 111 | (50) | |
| CDO/ABS | 6,974 | 34 | 2 | 8 | ( |
| Total bonds available for sale | 30,001 | 281 | 382 | 1,367 | 7 |

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## Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other bond securities: | | | | | | | | |
| RMBS | 937 | 28 | - | 104 | - | - | 1,069 | 16 |
| CMBS | 844 | 17 | - | (91) | - | - | 770 | 14 |
| CDO/ABS | 8,834 | 335 | - | (451) | - | (220) | 8,498 | 166 |
| Total other bond securities | 10,615 | 380 | - | (438) | - | (220) | 10,337 | 196 |
| Equity securities available for sale: | | | | | | | | |
| Common stock | 1 | - | - | - | - | (1) | - | - |
| Total equity securities available for sale | 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) | $ (82) |
| Derivative liabilities, net: | | | | | | | | |
| Interest rate contracts | (100) | (6) | - | 8 | - | - | (98) | (1) |
| Equity contracts | 49 | (3) | - | (5) | 47 | - | 88 | (6) |
| Commodity contracts | 1 | - | - | - | - | - | 1 | - |
| Credit contracts | (1,280) | 80 | - | 15 | - | - | (1,185) | 94 |
| Other contracts | (109) | 16 | (1) | (15) | - | - | (109) | 12 |
| Total derivative liabilities, net[(a)] | (1,439) | 87 | (1) | 3 | 47 | - | (1,303) | 99 |
| Long-term debt[(b)] | (370) | (3) | - | 19 | (70) | 21 | (403) | 7 |
| Total | $ (2,121) | $ (390) | $ (9) | $ 51 | $ (23) | $ 21 | $ (2,471) | $ 24 |

(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.

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

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

| *(in millions)* | Net Investment Income | Net Realized Capital Gains (Losses) | Other Income | Total |
|---|---|---|---|---|
| **Three Months Ended March 31, 2015** | | | | |
| Bonds available for sale | **$ 311** | **$ (9)** | **$ 14** | **$ 316** |
| Other bond securities | **18** | **6** | **89** | **113** |

| | | | | |
|---|---|---|---|---|
| Other invested assets | **68** | **389** | **(11)** | **446** |
| Policyholder contract deposits | **-** | **(275)** | **-** | **(275)** |
| Derivative liabilities, net | **19** | **6** | **141** | **166** |
| Long-term debt | **-** | **-** | **15** | **15** |
| Three Months Ended March 31, 2014 | | | | |
| Bonds available for sale | $ 304 | $ (36) | $ 13 | $ 281 |
| Other bond securities | 51 | 1 | 328 | 380 |
| Other invested assets | 77 | (4) | 6 | 79 |
| Policyholder contract deposits | - | (474) | - | (474) |
| Derivative liabilities, net | 15 | (3) | 75 | 87 |
| Long-term debt | - | - | (3) | (3) |

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**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-month periods ended March 31, 2015 and 2014 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:**

| *(in millions)* | | Purchases | Sales | Settlements | Purc Sales, Issu Settlements |
|---|---|---|---|---|---|
| **Three Months Ended March 31, 2015** | | | | | |
| Assets: | | | | | |
| Bonds available for sale: | | | | | |
| Obligations of states, municipalities and political subdivisions | $ | **107** | $ **(22)** | $ **(20)** | $ |
| Non-U.S. governments | | **6** | **-** | **(2)** | |
| Corporate debt | | **6** | **(50)** | **(17)** | |
| RMBS | | **961** | **(22)** | **(585)** | |
| CMBS | | **72** | **(27)** | **(15)** | |
| CDO/ABS | | **579** | **(23)** | **(154)** | |
| Total bonds available for sale | | **1,731** | **(144)** | **(793)** | |
| Other bond securities: | | | | | |
| RMBS | | **245** | **(6)** | **(35)** | |
| CMBS | | **-** | **(36)** | **(64)** | |
| CDO/ABS | | **214** | **(40)** | **(412)** | |
| Total other bond securities | | **459** | **(82)** | **(511)** | |
| Equity securities available for sale | | **-** | **-** | **-** | |
| Other invested assets | | **240** | **(586)** | **(148)** | |
| Total assets | $ | **2,430** | $ **(812)** | $ **(1,452)** | $ |
| Liabilities: | | | | | |
| Policyholder contract deposits | $ | **-** | $ **(73)** | $ **22** | $ |
| Derivative liabilities, net | | **15** | **-** | **28** | |
| Long-term debt[b] | | **-** | **-** | **12** | |
| Total liabilities | $ | **15** | $ **(73)** | $ **62** | $ |
| Three Months Ended March 31, 2014 | | | | | |
| Assets: | | | | | |
| Bonds available for sale: | | | | | |
| Obligations of states, municipalities and political subdivisions[c] | $ | 888 | $ (5) | $ (37) | $ |
| Non-U.S. governments | | 2 | - | - | |
| Corporate debt | | 56 | (7) | (45) | |
| RMBS | | 1,087 | (15) | (515) | |

| | | | | | |
|---|---|---|---|---|---|
| CMBS | | 65 | (57) | (58) | |
| CDO/ABS | | 330 | - | (322) | |
| Total bonds available for sale | | 2,428 | (84) | (977) | |
| Other bond securities: | | | | | |
| Corporate debt | | - | - | - | |
| RMBS | | 141 | (5) | (32) | |
| CMBS | | - | (6) | (85) | |
| CDO/ABS | | 21 | (7) | (465) | |
| Total other bond securities | | 162 | (18) | (582) | |
| Equity securities available for sale | | - | - | - | |
| Other invested assets | | 296 | - | (247) | |
| Total assets | $ | 2,886 | $ (102) | $ (1,806) | $ |
| Liabilities: | | | | | |
| Policyholder contract deposits | $ | - | $ (12) | $ 41 | $ |
| Derivative liabilities, net | | 1 | - | 2 | |
| Long-term debt(b) | | - | - | 19 | |
| Total liabilities | $ | 1 | $ (12) | $ 62 | $ |

(a) There were no issuances during the three-month periods ended March 31, 2015 and 2014, respectively.

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

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

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## 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, 2015 and 2014 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 classification 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 $18 million and $23 million of net gains related to assets and liabilities transferred into Level 3 during the three-month periods ended March 31, 2015 and 2014, respectively, and includes $3 million and $23 million of net gains related to assets and liabilities transferred out of Level 3 during the three-month periods ended March 31, 2015 and 2014, respectively.

#### *Transfers of Level 3 Assets*

During the three-month periods ended March 31, 2015 and 2014, transfers into Level 3 assets primarily included certain investments in CDO/ABS and private placement corporate debt.  The transfers of investments in CDO/ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types. Transfers of investments in private placement corporate debt 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.

During the three-month periods ended March 31, 2015 and 2014, transfers out of Level 3 assets primarily related to certain investments in corporate debt, RMBS, CDO/ABS, and investments in hedge funds. Transfers of certain investments in corporate debt, RMBS, 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. 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, 2015 and 2014, respectively.

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### 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**:**

| *(in millions)* | | **Fair Value at March 31, 2015** | Valuation Technique | Unobservable Input | Range (Weighted Average) |
|---|---|---|---|---|---|
| **Assets:** | | | | | |
| Obligations of states, municipalities and political subdivisions | $ | 1,263 | Discounted cash flow | Yield(b) | 3.78% - 4.46% (4.12%) |
| Corporate debt | | 1,085 | Discounted cash flow | Yield(b) | 3.77% - 8.21% (5.99%) |
| RMBS | | 18,003 | Discounted cash flow | Constant prepayment rate(a)(c) | 0.76% - 9.06% (4.91%) |
| | | | | Loss severity(a)(c) | 46.57% - 80.00% (63.29%) |
| | | | | Constant default rate(a)(c) | 3.56% - 9.28% (6.42%) |
| | | | | Yield(c) | 2.79% - 6.29% (4.54%) |
| Certain CDO/ABS | | 5,259 | Discounted cash flow | Constant prepayment rate(a)(c) | 6.30% - 12.00% (8.70%) |
| | | | | Loss severity(a)(c) | 43.90% - 58.50% (51.40%) |

| | | | | |
|---|---|---|---|---|
| | | | Constant default rate(a)(c) | 2.50% - 14.30% (7.70%) |
| | | | Yield(c) | 4.60% - 8.70% (6.90%) |
| CMBS | 2,583 | Discounted cash flow | Yield(b) | 0.00% - 17.56% (5.88%) |
| CDO/ABS - DIB | 310 | Binomial Expansion Technique (BET) | Recovery rate(b) | 5.00% - 33.00% (21.00%) |
| | | | Diversity score(b) | 3 - 26 (12) |
| | | | Weighted average life(b) | 0.27 - 10.40 years (4.97 years) |
| **Liabilities:** | | | | |
| Policyholder contract deposits | | | | |
| GMWB | 1,121 | Discounted cash flow | Equity implied volatility(b) | 6.00% - 39.00%(d) |
| | | | Base lapse rate(b) | 1.00% - 40.00%(d) |
| | | | Dynamic lapse rate(b) | 0.20% - 60.00%(d) |
| | | | Mortality rate(b) | 0.10% - 35.00%(d) |
| | | | Utilization rate(b) | 0.50% - 30.00%(d) |
| Index Annuities | 361 | Discounted cash flow | Lapse rates | 0.75% - 66.00%(d) |
| | | | Mortality rates | 0.02% - 44.06%(d) |

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| | | | | |
|---|---|---|---|---|
| Index Life | **291** | Discounted cash flow | Equity implied volatility | 10.00% to 25.00%[d] |
| | | | Base lapse rate | 2.00% to 19.00%[d] |
| | | | Mortality rates | 0.00% to 20.00%[d] |
| Total derivative liabilities, net | **554** | BET | Recovery rate[b] | 8.00% - 23.00% (11.00%) |
| | | | Diversity score[b] | 9 - 22 (14) |
| | | | Weighted average life[b] | 3.09 - 10.40 years (7.12 years) |

| *(in millions)* | Fair Value at December 31, 2014 | Valuation Technique | Unobservable Input | Range (Weighted Average ) |
|---|---|---|---|---|
| **Assets:** | | | | |
| Obligations of states, municipalities and political subdivisions | $ 1,178 | Discounted cash flow | Yield[b] | 3.9% - 4.62% (4.26%) |
| Corporate debt | 1,145 | Discounted cash flow | Yield[b] | 3.46% - 8.75% (6.10%) |
| RMBS | 17,353 | Discounted cash flow | Constant prepayment rate[a][c] | 0.59% - 9.35% (4.97%) |
| | | | Loss severity[a][c] | 46.04% - 79.56% (62.80%) |
| | | | Constant default rate[a][c] | 3.67% - 9.96% (6.82%) |
| | | | Yield[c] | |

| | | | | |
|---|---|---|---|---|
| | | | | 2.67% - 6.64% (4.65%) |
| Certain CDO/ABS | 5,282 | Discounted cash flow | Constant prepayment rate[a][c] | 6.40% - 12.80% (9.20%) |
| | | | Loss severity[a][c] | 42.90% - 60.30% (51.90%) |
| | | | Constant default rate[a][c] | 2.50% - 14.70% (7.80%) |
| | | | Yield[c] | 4.70% - 9.70% (7.10%) |
| CMBS | 2,687 | Discounted cash flow | Yield[b] | 0.00% - 17.29% (6.06%) |
| CDO/ABS - DIB | 279 | Binomial Expansion Technique (BET) | Recovery rate[b] | 7.00% - 36.00% (21.00%) |
| | | | Diversity score[b] | 5 - 27 (12) |
| | | | Weighted average life[b] | 0.25 - 10.49 years (3.93 years) |
| **Liabilities:** | | | | |
| Policyholder contract deposits | | | | |
| GMWB | 890 | Discounted cash flow | Equity implied volatility[b] | 6.00% - 39.00%[d] |
| | | | Base lapse rate[b] | 1.00% - 40.00%[d] |
| | | | Dynamic lapse rate[b] | 0.20% - 60.00%[d] |
| | | | Mortality rate[b] | 0.10% - 35.00%[d] |
| | | | Utilization rate[b] | 0.50% - 30.00%[d] |
| Index Annuities | 294 | Discounted cash flow | Lapse rates | 0.75% - 66%[d] |
| | | | Mortality rates | 0.02% - 44.06%[d] |

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

| | | | | |
|---|---|---|---|---|
| Index Life | 259 | Discounted cash flow | Equity implied volatility | 10.00% to 25.00%[(d)] |
| | | | Base lapse rate | 2.00% to 19.00%[(d)] |
| | | | Mortality rate | 0.00% to 20.00%[(d)] |
| Total derivative liabilities, net | 791 | BET | Recovery rate[(b)] | 5.00% - 23.00% (13.00%) |
| | | | Diversity score[(b)] | 8 - 25 (13) |
| | | | Weighted average life[(b)] | 2.67 - 10.49 years (4.65 years) |

(a) The unobservable inputs and ranges for the constant prepayment rate, loss severity and constant default rate relate to each of the individual underlying mortgage loans that comprise the entire portfolio of securities in the RMBS and CDO securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by us. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by us because there are other factors relevant to the fair values of specific tranches owned by us including, but not limited to, purchase price, position in the waterfall, senior versus subordinated position and attachment points.

(b) Represents discount rates, estimates and assumptions that we believe would be used by market participants when valuing these assets and liabilities.

(c) Information received from independent third-party valuation service providers.

(d) Represents actual maximum and minimum, not weighted average rates.

The ranges of reported inputs for Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of plus/minus one standard deviation in either direction from the value weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these investments.

### Sensitivity to Changes in Unobservable Inputs

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following is a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

*Obligations of States, Municipalities and Political Subdivisions*

The significant unobservable input used in fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

*Corporate Debt*

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the security. For example, a

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downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

*RMBS and Certain CDO/ABS*

The significant unobservable inputs used in fair value measurements of RMBS and certain CDO/ABS valued by third party valuation service providers are constant prepayment rates (CPR), loss severity, constant default rates (CDR), and yield. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. In general, increases in CPR, loss severity, CDR, and yield, in isolation, would result in a decrease in the fair value measurement. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

*CMBS*

The significant unobservable input used in fair value measurements for CMBS is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. In general, increases in the yield would decrease the fair value of CMBS.

*CDO/ABS – DIB*

The significant unobservable inputs used for certain CDO/ABS securities valued using the BET are recovery rates, diversity score, and the weighted average life of the portfolio. An increase in recovery rates and diversity score will increase the fair value of the portfolio. An increase in the weighted average life will decrease the fair value.

*Policyholder contract deposits*

Embedded derivatives within Policyholder contract deposits relate to guaranteed minimum withdrawal benefits (GMWB) within variable annuity products and certain enhancements to interest crediting rates based on market indices within equity indexed annuities and guaranteed investment contracts (GICs). GMWB represents our largest exposure of these embedded derivatives, although the carrying value of the liability fluctuates based on the performance of the equity markets and therefore, at a point in time, can be low relative to the exposure. The principal unobservable input used for GMWBs and embedded derivatives in equity indexed annuities measured at fair value is equity implied volatility. For GMWBs, other significant unobservable inputs include base and dynamic lapse rates, mortality rates, and utilization rates. Lapse, mortality, and utilization rates may vary significantly depending upon age groups and duration. In general, increases in volatility and utilization rates will increase the fair value of the liability associated with GMWB, while increases in lapse rates and mortality rates will decrease the fair value of the liability.

*Derivative liabilities – credit contracts*

The significant unobservable inputs used for Derivative liabilities – credit contracts are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non performance risk is also considered in the measurement of the liability.

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An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will increase the fair value measurement of the liability.

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

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

| | | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|---|
| *(in millions)* | Investment Category Includes | Fair Value Using Net Asset Value Per Share (or its equivalent) | Unfunded Commitments | Fair Value Using Net Asset Value Per Share (or its equivalent) | Unfunded Commitments |
| **Investment Category** | | | | | |
| *Private equity funds:* | | | | | |
| Leveraged buyout | Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage | **$ 2,123** | **$ 461** | $ 2,275 | $ 450 |
| Real Estate / Infrastructure | Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities | **370** | **205** | 384 | 227 |
| Venture capital | Early-stage, high-potential, growth companies expected | **133** | **30** | 121 | 26 |

| | | | | | |
|---|---|---|---|---|---|
| | to generate a return through an eventual realization event, such as an initial public offering or sale of the company | | | | |
| Distressed | Securities of companies that are in default, under bankruptcy protection, or troubled | 161 | 43 | 164 | 43 |
| Other | Includes multi-strategy, mezzanine and other strategies | 248 | 209 | 216 | 234 |
| Total private equity funds | | 3,035 | 948 | 3,160 | 980 |
| *Hedge funds:* | | | | | |
| Event-driven | Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations | 1,182 | - | 1,109 | - |
| Long-short | Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk | 2,750 | 1 | 2,428 | 1 |
| Macro | Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions | 531 | - | 498 | - |
| Distressed | Securities of companies that are in default, under bankruptcy protection or troubled | 736 | 23 | 731 | 5 |
| Emerging markets | Investments in the financial markets of developing countries | 339 | - | 308 | - |
| Other | Includes multi-strategy, relative value and other strategies | 173 | - | 125 | - |
| Total hedge funds | | 5,711 | 24 | 5,199 | 6 |
| Total | | $ 8,746 | $ 972 | $ 8,359 | $ 986 |

Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one- or two year increments. At March 31, 2015, assuming average original expected lives of 10 years for the funds, 85 percent of the total fair value using net asset

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## Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 5 percent between four and six years and 10 percent between seven and 10 years.

The hedge fund investments included above are generally redeemable monthly (14 percent), quarterly (48 percent), semi annually (15 percent) and annually (23 percent), with redemption notices ranging from one day to 180 days. At March 31, 2015, however, investments representing approximately 44 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various contractual restrictions. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre defined end dates and are generally expected to be lifted by the end of 2016. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

### Fair Value Option

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

| **Three Months Ended March 31,** | Gain (Loss) | |
|---|---|---|
| *(in millions)* | **2015** | 2014 |
| Assets: | | |
| Mortgage and other loans receivable | **$ -** | $ - |
| Bond and equity securities | **141** | 666 |
| Alternative investments[(a)] | **145** | 154 |
| Other, including Short-term investments | **2** | 3 |
| Liabilities: | | |
| Long-term debt[(b)] | **(76)** | (74) |
| Other liabilities | **(3)** | (4) |
| Total gain | **$ 209** | $ 745 |

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

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

We recognized gains of $6 million and losses of $11 million during the three-month periods ended March 31, 2015 and 2014, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

| | **March 31, 2015** | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| *(in millions)* | Fair Value | Outstanding Principal Amount | Difference | Fair Value | Outstanding Principal Amount | Difference |
| **Assets:** | | | | | | |
| Mortgage and other loans receivable | **$ 6** | **$ 4** | **$ 2** | $ 6 | $ 4 | $ 2 |
| **Liabilities:** | | | | | | |
| Long-term debt* | **$ 4,844** | **$ 3,541** | **$ 1,303** | $ 5,466 | $ 4,101 | $ 1,365 |

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

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**Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS**

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

**Fair Value Measurements on a Non-Recurring Basis**

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

| | Assets at Fair Value Non-Recurring Basis | | | | Impairment Charges Three Months Ended March 31, | |
|---|---|---|---|---|---|---|
| *(in millions)* | Level 1 | Level 2 | Level 3 | Total | **2015** | 2014 |
| **March 31, 2015** | | | | | | |
| Other investments | **$ -** | **$ -** | **$ 1,058** | **$ 1,058** | **$ 25** | $ 49 |
| Investments in life settlements | **-** | **-** | **308** | **308** | **70** | 42 |
| Other assets | **-** | **-** | **9** | **9** | **4** | 1 |
| Total | **$ -** | **$ -** | **$ 1,375** | **$ 1,375** | **$ 99** | $ 92 |
| **December 31, 2014** | | | | | | |
| Other investments | $ - | $ - | $ 790 | $ 790 | | |
| Investments in life settlements | - | - | 537 | 537 | | |
| Other assets | - | - | 1 | 1 | | |
| Total | $ - | $ - | $ 1,328 | $ 1,328 | | |

**Fair Value Information About Financial Instruments Not Measured at Fair Value**

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

| | Estimated Fair Value | | | | Carrying |
|---|---|---|---|---|---|
| *(in millions)* | Level 1 | Level 2 | Level 3 | Total | Value |
| **March 31, 2015** | | | | | |
| Assets: | | | | | |
| Mortgage and other loans receivable | **$ -** | **$ 424** | **$ 26,730** | **$ 27,154** | **$ 25,307** |
| Other invested assets | **-** | **549** | **2,912** | **3,461** | **4,324** |
| Short-term investments | **-** | **10,753** | **-** | **10,753** | **10,753** |
| Cash | **1,823** | **-** | **-** | **1,823** | **1,823** |
| Liabilities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Policyholder contract deposits associated with investment-type contracts | **-** | **253** | **120,740** | **120,993** | **106,646** |
| Other liabilities | **-** | **1,300** | **-** | **1,300** | **1,300** |
| Long-term debt | **-** | **25,928** | **3,807** | **29,735** | **27,155** |
| December 31, 2014 | | | | | |
| Assets: | | | | | |
| Mortgage and other loans receivable | $ - | $ 449 | $ 26,157 | $ 26,606 | $ 24,984 |
| Other invested assets | - | 593 | 2,882 | 3,475 | 4,352 |
| Short-term investments | - | 9,559 | - | 9,559 | 9,559 |
| Cash | 1,758 | - | - | 1,758 | 1,758 |
| Liabilities: | | | | | |
| Policyholder contract deposits associated with investment-type contracts | - | 244 | 119,268 | 119,512 | 106,395 |
| Other liabilities | - | 1,120 | - | 1,120 | 1,120 |
| Long-term debt | - | 24,749 | 2,932 | 27,681 | 25,751 |

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**Item 1 / NOTE 6. INVESTMENTS**

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

**6. INVESTMENTS**

**Securities Available for Sale**

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

| *(in millions)* | Amortized Cost or Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Othe Ter Impa in |
|---|---|---|---|---|---|
| **March 31, 2015** | | | | | |
| Bonds available for sale: | | | | | |
| U.S. government and government sponsored entities | **$ 2,557** | **$ 222** | **$ (5)** | **$ 2,774** | **$** |
| Obligations of states, municipalities and political subdivisions | **26,088** | **1,783** | **(36)** | **27,835** | |
| Non-U.S. governments | **18,857** | **1,149** | **(117)** | **19,889** | |
| Corporate debt | **133,066** | **11,923** | **(847)** | **144,142** | |
| Mortgage-backed, asset-backed and collateralized: | | | | | |
| RMBS | **34,551** | **3,466** | **(285)** | **37,732** | |
| CMBS | **12,503** | **971** | **(31)** | **13,443** | |
| CDO/ABS | **14,492** | **665** | **(150)** | **15,007** | |
| Total mortgage-backed, asset-backed and collateralized | **61,546** | **5,102** | **(466)** | **66,182** | |
| **Total bonds available for sale**(b) | **242,114** | **20,179** | **(1,471)** | **260,822** | |
| Equity securities available for sale: | | | | | |
| Common stock | **1,000** | **2,071** | **(11)** | **3,060** | |
| Preferred stock | **21** | **4** | **-** | **25** | |
| Mutual funds | **662** | **63** | **(44)** | **681** | |
| **Total equity securities available for sale** | **1,683** | **2,138** | **(55)** | **3,766** | |
| **Total** | **$ 243,797** | **$ 22,317** | **$ (1,526)** | **$ 264,588** | **$** |
| December 31, 2014 | | | | | |
| Bonds available for sale: | | | | | |
| U.S. government and government sponsored entities | $ 2,806 | $ 204 | $ (18) | $ 2,992 | $ |
| Obligations of states, municipalities and political subdivisions | 25,979 | 1,729 | (49) | 27,659 | |
| Non-U.S. governments | 20,280 | 966 | (151) | 21,095 | |

| | | | | | |
|---|---|---|---|---|---|
| Corporate debt | 134,961 | 10,594 | (1,122) | 144,433 | |
| Mortgage-backed, asset-backed and collateralized: | | | | | |
| RMBS | 34,377 | 3,435 | (292) | 37,520 | |
| CMBS | 12,129 | 815 | (59) | 12,885 | |
| CDO/ABS | 12,775 | 628 | (128) | 13,275 | |
| Total mortgage-backed, asset-backed and collateralized | 59,281 | 4,878 | (479) | 63,680 | |
| **Total bonds available for sale**(b) | 243,307 | 18,371 | (1,819) | 259,859 | |
| Equity securities available for sale: | | | | | |
| Common stock | 1,185 | 2,461 | (17) | 3,629 | |
| Preferred stock | 21 | 4 | - | 25 | |
| Mutual funds | 724 | 54 | (37) | 741 | |
| **Total equity securities available for sale** | 1,930 | 2,519 | (54) | 4,395 | |
| **Total** | $ 245,237 | $ 20,890 | $ (1,873) | $ 264,254 | $ |

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

## Item 1 / NOTE 6. INVESTMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(b) At March 31, 2015 and December 31, 2014, bonds available for sale held by us that were below investment grade or not rated totaled $36.1 billion and $35.1 billion, respectively.

### Securities Available for Sale in a Loss Position

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

| | Less than 12 Months | | 12 Months or More | | Total | |
|---|---|---|---|---|---|---|
| *(in millions)* | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gr Unreali Los |
| **March 31, 2015** | | | | | | |
| Bonds available for sale: | | | | | | |
| U.S. government and government sponsored entities | **$ 120** | **$ 1** | **$ 141** | **$ 4** | **$ 261** | **$** |
| Obligations of states, municipalities and political subdivisions | **1,130** | **14** | **460** | **22** | **1,590** | |
| Non-U.S. governments | **1,605** | **47** | **884** | **70** | **2,489** | |
| Corporate debt | **12,048** | **449** | **4,563** | **398** | **16,611** | |
| RMBS | **5,540** | **125** | **2,953** | **160** | **8,493** | |
| CMBS | **453** | **3** | **603** | **28** | **1,056** | |
| CDO/ABS | **3,193** | **56** | **1,812** | **94** | **5,005** | |
| **Total bonds available for sale** | **24,089** | **695** | **11,416** | **776** | **35,505** | **1,** |
| Equity securities available for sale: | | | | | | |
| Common stock | **58** | **11** | **-** | **-** | **58** | |
| Mutual funds | **275** | **44** | **-** | **-** | **275** | |
| **Total equity securities available for sale** | **333** | **55** | **-** | **-** | **333** | |
| **Total** | **$24,422** | **$ 750** | **$11,416** | **$ 776** | **$35,838** | **$ 1,** |
| December 31, 2014 | | | | | | |
| Bonds available for sale: | | | | | | |
| U.S. government and government sponsored entities | $ 526 | $ 5 | $ 281 | $ 13 | $ 807 | $ |
| Obligations of states, municipalities and political subdivisions | 495 | 9 | 794 | 40 | 1,289 | |
| Non-U.S. governments | 1,606 | 42 | 1,690 | 109 | 3,296 | |
| Corporate debt | 12,132 | 450 | 11,570 | 672 | 23,702 | 1, |

| | | | | | | |
|---|---|---|---|---|---|---|
| RMBS | 4,621 | 109 | 3,996 | 183 | 8,617 | |
| CMBS | 220 | 1 | 2,087 | 58 | 2,307 | |
| CDO/ABS | 3,857 | 50 | 1,860 | 78 | 5,717 | |
| Total bonds available for sale | 23,457 | 666 | 22,278 | 1,153 | 45,735 | 1, |
| Equity securities available for sale: | | | | | | |
| Common stock | 88 | 16 | 2 | 1 | 90 | |
| Mutual funds | 280 | 37 | 64 | - | 344 | |
| Total equity securities available for sale | 368 | 53 | 66 | 1 | 434 | |
| Total | $23,825 | $ 719 | $22,344 | $ 1,154 | $46,169 | $ 1, |

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**Item 1 / NOTE 6. INVESTMENTS**

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

At March 31, 2015, we held 4,983 and 112 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,351 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed maturity securities at March 31, 2015 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

| **March 31, 2015** | Total Fixed Maturity Securities Available for Sale | | Fixed Maturity Securities in a Loss Position Available for Sale | |
|---|---|---|---|---|
| *(in millions)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 10,434 | $ 10,590 | $ 655 | $ 632 |
| Due after one year through five years | 48,034 | 50,920 | 4,452 | 4,314 |
| Due after five years through ten years | 59,209 | 62,855 | 8,569 | 8,170 |
| Due after ten years | 62,891 | 70,275 | 8,280 | 7,835 |
| Mortgage-backed, asset-backed and collateralized | 61,546 | 66,182 | 15,020 | 14,554 |
| Total | $ 242,114 | $ 260,822 | $ 36,976 | $ 35,505 |
| December 31, 2014 | | | | |
| Due in one year or less | $ 9,821 | $ 9,975 | $ 637 | $ 620 |
| Due after one year through five years | 48,352 | 50,873 | 6,669 | 6,529 |
| Due after five years through ten years | 62,685 | 65,889 | 12,873 | 12,338 |
| Due after ten years | 63,168 | 69,442 | 10,255 | 9,607 |
| Mortgage-backed, asset-backed and collateralized | 59,281 | 63,680 | 17,120 | 16,641 |
| Total | $ 243,307 | $ 259,859 | $ 47,554 | $ 45,735 |

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

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

| | 2015 | | 2014 | |
|---|---|---|---|---|
| **Three Months Ended March 31,** *(in millions)* | Gross Realized Gains | Gross Realized Losses | Gross Realized Gains | Gross Realized Losses |
| Fixed maturity securities | **$ 149** | **$ 118** | $ 216 | $ 31 |
| Equity securities | **496** | **5** | 30 | 2 |
| Total | **$ 645** | **$ 123** | $ 246 | $ 33 |

For the three-month periods ended March 31, 2015 and 2014, respectively, the aggregate fair value of available for sale securities sold was $6.9 billion and $6.1 billion, respectively, which resulted in net realized capital gains of $0.5 billion and $0.2 billion, respectively.

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**Item 1 / NOTE 6. INVESTMENTS**

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

**Other Securities Measured at Fair Value**

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

| | March 31, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(in millions)* | Fair Value | Percent of Total | Fair Value | Percent of Total |
| Fixed maturity securities: | | | | |
| U.S. government and government sponsored entities | **$ 5,483** | **27 %** | $ 5,498 | 27% |
| Obligations of states, municipalities and political subdivisions | **76** | **-** | 122 | 1 |
| Non-U.S. governments | **2** | **-** | 2 | - |
| Corporate debt | **567** | **3** | 719 | 3 |
| Mortgage-backed, asset-backed and collateralized: | | | | |
| RMBS | **2,176** | **11** | 2,094 | 10 |
| CMBS | **945** | **5** | 1,077 | 5 |
| CDO/ABS and other collateralized* | **9,764** | **49** | 10,200 | 49 |
| Total mortgage-backed, asset-backed and collateralized | **12,885** | **65** | 13,371 | 64 |
| Total fixed maturity securities | **19,013** | **95** | 19,712 | 95 |
| Equity securities | **1,100** | **5** | 1,049 | 5 |
| Total | **$ 20,113** | **100 %** | $ 20,761 | 100% |

* Includes $825 million and $859 million of U.S. Government agency backed ABS at March 31, 2015 and December 31, 2014, respectively.

**Net Investment Income**

**The following table presents the components of Net investment income:**

| **Three Months Ended March 31,** | | |
|---|---|---|
| *(in millions)* | **2015** | 2014 |
| Fixed maturity securities, including short-term investments | **$ 2,883** | $ 3,131 |
| Equity securities | **15** | (85) |
| Interest on mortgage and other loans | **339** | 318 |

| | | |
|---|---|---|
| Alternative investments* | **689** | 925 |
| Real estate | **26** | 28 |
| Other investments | **38** | 11 |
| Total investment income | **3,990** | 4,328 |
| Investment expenses | **152** | 132 |
| Net investment income | **$ 3,838** | $ 4,196 |

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

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### Item 1 / NOTE 6. INVESTMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Net Realized Capital Gains and Losses

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

| Three Months Ended March 31, *(in millions)* | 2015 | 2014 |
|---|---|---|
| Sales of fixed maturity securities | $ 31 | $ 185 |
| Sales of equity securities | 491 | 28 |
| Other-than-temporary impairments: | | |
| Severity | (2) | - |
| Change in intent | (24) | (5) |
| Foreign currency declines | (29) | (4) |
| Issuer-specific credit events | (68) | (49) |
| Adverse projected cash flows | (5) | (1) |
| Provision for loan losses | 24 | 5 |
| Foreign exchange transactions | 254 | 26 |
| Derivative instruments | 208 | (289) |
| Impairments on investments in life settlements | (70) | (42) |
| Other* | 531 | (6) |
| Net realized capital gains (losses) | $ 1,341 | $ (152) |

* Includes realized gains due to the sale of Class B shares of Prudential Financial, Inc.

### Change in Unrealized Appreciation (Depreciation) of Investments

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

| Three Months Ended March 31, *(in millions)* | 2015 | 2014 |
|---|---|---|
| Increase (decrease) in unrealized appreciation (depreciation) of investments: | | |
| Fixed maturity securities | $ 2,156 | $ 3,994 |
| Equity securities | (382) | (128) |
| Other investments | (503) | 73 |

| | | |
|---|---|---|
| Total increase (decrease) in unrealized appreciation (depreciation) of investments* | **$ 1,271** | $ 3,939 |

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

**Evaluating Investments for Other-Than-Temporary Impairments**

For a discussion of our policy for evaluating investments for other-than-temporary impairments, see Note 6 to the Consolidated Financial Statements in the 2014 Annual Report.

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## Item 1 / NOTE 6. INVESTMENTS

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

### Credit Impairments

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

| **Three Months Ended March 31,** | | |
|---|---|---|
| *(in millions)* | **2015** | 2014 |
| Balance, beginning of year | **$ 2,659** | $ 3,872 |
| Increases due to: | | |
| Credit impairments on new securities subject to impairment losses | **15** | 8 |
| Additional credit impairments on previously impaired securities | **22** | 36 |
| Reductions due to: | | |
| Credit impaired securities fully disposed for which there was no prior intent or requirement to sell | **(42)** | (330) |
| Accretion on securities previously impaired due to credit* | **(188)** | (188) |
| Other | **-** | (9) |
| Balance, end of period | **$ 2,466** | $ 3,389 |

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

### Purchased Credit Impaired (PCI) Securities

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

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

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

| *(in millions)* | At Date of Acquisition |
|---|---|
| Contractually required payments (principal and interest) | $ 31,562 |
| Cash flows expected to be collected* | 25,480 |
| Recorded investment in acquired securities | 16,986 |

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

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**Item 1 / NOTE 6. INVESTMENTS**

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

| *(in millions)* | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Outstanding principal balance | **$ 17,362** | $ 16,962 |
| Amortized cost | **12,601** | 12,216 |
| Fair value | **13,788** | 13,462 |

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

| **Three Months Ended March 31,** | | |
|---|---|---|
| *(in millions)* | **2015** | 2014 |
| Balance, beginning of period | **$ 6,865** | $ 6,940 |
| Newly purchased PCI securities | **245** | 522 |
| Disposals | **-** | - |
| Accretion | **(220)** | (212) |
| Effect of changes in interest rate indices | **(138)** | (59) |
| Net reclassification to/(from) non-accretable difference, including effects of prepayments | **13** | (21) |
| Balance, end of period | **$ 6,765** | $ 7,170 |

**Pledged Investments**

Secured Financing and Similar Arrangements

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

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

| *(in millions)* | **March 31, 2015** | December 31, 2014 |
|---|---|---|

| | | |
|---|---|---|
| Other bond securities | **1,180** | 2,122 |

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

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

| *(in millions)* | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Securities collateral pledged to us | **$ 4,340** | $ 2,506 |
| Amount sold or repledged by us | **132** | 131 |

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**Item 1 / NOTE 6. INVESTMENTS**

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

Insurance - Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were $6.5 billion and $5.9 billion at March 31, 2015 and December 31, 2014, respectively.

Other Pledges

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $41 million and $44 million of stock in FHLBs at March 31, 2015 and December 31, 2014, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $1.2 billion and $0.5 billion at March 31, 2015 and December 31, 2014, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately $3.1 billion and $3.5 billion at March 31, 2015 and December 31, 2014, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

## 7. LENDING ACTIVITIES

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

| *(in millions)* | **March 31, 2015** | December 31, 2014 |
|---|---|---|
| Commercial mortgages* | **$ 19,172** | $ 18,909 |
| Life insurance policy loans | **2,665** | 2,710 |
| Commercial loans, other loans and notes receivable | **3,726** | 3,642 |

| | | | | |
|---|---|---|---|---|
| Total mortgage and other loans receivable | | **25,563** | | 25,261 |
| Allowance for losses | | **(250)** | | (271) |
| Mortgage and other loans receivable, net | **$** | **25,313** | $ | 24,990 |

* Commercial mortgages primarily represent loans for office, retail, apartment and industrial properties, with exposures in California and New York representing the largest geographic concentrations (aggregating approximately 14 percent and 18 percent, respectively, at both March 31, 2015 and December 31, 2014).

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**Item 1 / NOTE 7. LENDING ACTIVITIES**

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

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

| *(dollars in millions)* | Number of Loans | Class Apartments | Offices | Retail | Industrial | Hotel | Others | Total[c] | Percent of Total $ |
|---|---|---|---|---|---|---|---|---|---|
| **March 31, 2015** | | | | | | | | | |
| **Credit Quality Indicator:** | | | | | | | | | |
| In good standing | **983** | **$ 3,383** | **$ 6,449** | **$ 4,073** | **$ 2,020** | **$ 1,713** | **$ 1,080** | **$ 18,718** | **98%** |
| Restructured[a] | **8** | **-** | **408** | **6** | **-** | **16** | **-** | **430** | **2** |
| 90 days or less delinquent | **1** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| >90 days delinquent or in process of foreclosure | **5** | **-** | **14** | **10** | **-** | **-** | **-** | **24** | **-** |
| Total[b] | **997** | **$ 3,383** | **$ 6,871** | **$ 4,089** | **$ 2,020** | **$ 1,729** | **$ 1,080** | **$ 19,172** | **100%** |
| Valuation allowance | | **$ 1** | **$ 74** | **$ 29** | **$ 23** | **$ 6** | **$ 10** | **$ 143** | **1%** |
| December 31, 2014 | | | | | | | | | |
| **Credit Quality Indicator:** | | | | | | | | | |
| In good standing | 1,007 | $ 3,384 | $ 6,100 | $ 3,807 | $ 1,689 | $ 1,660 | $ 1,812 | $ 18,452 | 98% |
| Restructured[a] | 7 | - | 343 | 7 | - | 17 | - | 367 | 2 |
| 90 days or less delinquent | 6 | - | - | 10 | - | - | 5 | 15 | - |
| >90 days delinquent or in process of foreclosure | 4 | - | 75 | - | - | - | - | 75 | - |
| Total[b] | 1,024 | $ 3,384 | $ 6,518 | $ 3,824 | $ 1,689 | $ 1,677 | $ 1,817 | $ 18,909 | 100% |
| Allowance for losses | | $ 3 | $ 86 | $ 28 | $ 22 | $ 6 | $ 14 | $ 159 | 1% |

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings see Note 7 to the Consolidated Financial Statements in the 2014 Annual Report.

(b) Does not reflect valuation allowances.

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

**Allowance for Loan Losses**

See Note 7 to the Consolidated Financial Statements in the 2014 Annual Report for a discussion of our accounting policy for evaluating mortgage and other loans receivable for impairment.

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

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| **Three Months Ended March 31,** *(in millions)* | Commercial Mortgages | Other Loans | Total | Commercial Mortgages | Other Loans | Total |
| Allowance, beginning of year | **$ 159** | **$ 112** | **$ 271** | $ 201 | $ 111 | $ 312 |
| Loans charged off | **-** | **(1)** | **(1)** | - | - | - |
| Recoveries of loans previously charged off | **4** | **-** | **4** | - | - | - |
| Net charge-offs | **4** | **(1)** | **3** | - | - | - |
| Provision for loan losses | **(20)** | **(4)** | **(24)** | (1) | (12) | (13) |
| Other | **-** | **-** | **-** | - | - | - |
| Allowance, end of period | **$ 143 *** | **$ 107** | **$ 250** | $ 200 * | $ 99 | $ 299 |

* Of the total allowance at the end of the periods, $45 million and $98 million relate to individually assessed credit losses on $131 million and $281 million of commercial mortgage loans at March 31, 2015 and 2014, respectively.

During the three-month periods ended March 31, 2015 and 2014, loans with a carrying value of $65 million and $136 million, respectively, were modified in troubled debt restructurings.

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**Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES**

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

## 8. VARIABLE INTEREST ENTITIES

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

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

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

### Balance Sheet Classification and Exposure to Loss

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

| *(in millions)* | Real Estate and Investment Entities(d) | Securitization Vehicles | Structured Investment Vehicle | Affordable Housing Partnerships | Other | Total |
|---|---|---|---|---|---|---|
| **March 31, 2015** | | | | | | |
| Assets: | | | | | | |
| Bonds available for sale | **$ -** | **$ 11,389** | **$ -** | **$ -** | **$ 34** | **$ 11,423** |
| Other bond securities | **-** | **6,850** | **528** | **-** | **38** | **7,416** |
| Mortgage and other loans receivable | **-** | **2,359** | **-** | **-** | **155** | **2,514** |
| Other invested assets | **611** | **632** | **-** | **1,846** | **27** | **3,116** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Other [a] | | 41 | 1,298 | 142 | 57 | 70 | 1,608 |
| Total assets[b] | $ | 652$ | 22,528$ | 670$ | 1,903$ | 324$ | 26,077 |
| Liabilities: | | | | | | | |
| Long-term debt | $ | 68$ | 1,318$ | 52$ | 265$ | 6$ | 1,709 |
| Other [c] | | 37 | 247 | 1 | 140 | 33 | 458 |
| Total liabilities | $ | 105$ | 1,565$ | 53$ | 405$ | 39$ | 2,167 |

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## Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

| | | | | | | |
|---|---|---|---|---|---|---|
| December 31, 2014 | | | | | | |
| Assets: | | | | | | |
| Bonds available for sale | $ - | $ 11,459 | $ - | $ - | $ 35 | $ 11,494 |
| Other bond securities | - | 7,251 | 615 | - | 40 | 7,906 |
| Mortgage and other loans receivable | - | 2,398 | - | - | 162 | 2,560 |
| Other invested assets | 577 | 651 | - | 1,684 | 29 | 2,941 |
| Other [(a)] | 40 | 1,447 | 140 | 49 | 76 | 1,752 |
| Total assets[(b)] | $ 617 | $ 23,206 | $ 755 | $ 1,733 | $ 342 | $ 26,653 |
| Liabilities: | | | | | | |
| Long-term debt | $ 69 | $ 1,370 | $ 52 | $ 199 | $ 7 | $ 1,697 |
| Other[(c)] | 32 | 276 | - | 101 | 37 | 446 |
| Total liabilities | $ 101 | $ 1,646 | $ 52 | $ 300 | $ 44 | $ 2,143 |

(a) Comprised primarily of Short-term investments, Premiums and other receivables and Other assets at both March 31, 2015 and December 31, 2014.

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

(c) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at both March 31, 2015 and December 31, 2014.

(d) At March 31, 2015 and December 31, 2014, off-balance sheet exposure, primarily consisting of commitments to real estate and investment entities, was $81.9 million and $56.4 million, respectively.

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

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

| | | Maximum Exposure to Loss | | |
|---|---|---|---|---|
| | Total VIE | On-Balance | Off-Balance | |
| *(in millions)* | Assets | Sheet* | Sheet | Total |
| **March 31, 2015** | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Real estate and investment entities | **$** | **19,342** | **$** | **2,817** | **$** | **433** | **$** | **3,250** |
| Affordable housing partnerships | | **7,760** | | **405** | | **-** | | **405** |
| Other | | **383** | | **14** | | **-** | | **14** |
| Total | **$** | **27,485** | **$** | **3,236** | **$** | **433** | **$** | **3,669** |
| December 31, 2014 | | | | | | | | |
| Real estate and investment entities | $ | 19,949 | $ | 2,785 | $ | 454 | $ | 3,239 |
| Affordable housing partnerships | | | | | | | | |