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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2016	**Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of July 29, 2016, there were 1,070,659,944 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

June 30, 2016

Table of Contents

FORM 10-Q

SIGNATURES **200**

1

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2016 - $244,450; 2015 - $240,968)	$
Other bond securities, at fair value (See Note 5)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2016 - $1,246; 2015 - $1,379)	
Other common and preferred stock, at fair value (See Note 5)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2016 - $11; 2015 - $11)	
Other invested assets (portion measured at fair value: 2016 - $7,177; 2015 - $8,912)	
Short-term investments (portion measured at fair value: 2016 - $3,949; 2015 - $2,591)	
Total investments	
Cash	
Accrued investment income	
Premiums and other receivables, net of allowance	
Reinsurance assets, net of allowance	
Deferred income taxes	
Deferred policy acquisition costs	
Other assets, including restricted cash of $191 in 2016 and $170 in 2015	
Separate account assets, at fair value	
Total assets	$
Liabilities:	
Liability for unpaid losses and loss adjustment expenses	$
Unearned premiums	
Future policy benefits for life and accident and health insurance contracts	
Policyholder contract deposits (portion measured at fair value: 2016 - $4,016; 2015 - $2,325)	

Other policyholder funds (portion measured at fair value: 2016 - $5; 2015 - $6)
Other liabilities (portion measured at fair value: 2016 - $241; 2015 - $62)
Long-term debt (portion measured at fair value: 2016 - $3,747; 2015 - $3,670)
Separate account liabilities
Total liabilities
Contingencies, commitments and guarantees (see Note 9)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2016 - 1,906,671,492 and 2015 - 1,906,671,492
Treasury stock, at cost; 2016 - 823,982,130 shares; 2015 - 712,754,875 shares of common stock
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

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

Income (loss) per common share attributable to AIG:			
Basic:			
Income from continuing operations	**$ 1.73**	$ 1.34	**$**
Income (loss) from discontinued operations	**$ (0.01)**	$ 0.01	**$**
Net income attributable to AIG	**$ 1.72**	$ 1.35	**$**
Diluted:			
Income from continuing operations	**$ 1.69**	$ 1.31	**$**
Income (loss) from discontinued operations	**$ (0.01)**	$ 0.01	**$**
Net income attributable to AIG	**$ 1.68**	$ 1.32	**$**
Weighted average shares outstanding:			
Basic	**1,113,587,927**	1,329,157,366	
Diluted	**1,140,045,973**	1,365,390,431	
Dividends declared per common share	**$ 0.320**	$ 0.125	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

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

	Three Months Ended June 30,		Six Month Ended June 30,	
(in millions)	**2016**	2015	**2016**	2
Net income	**$1,924**	$ 1,791	**$1,721**	$ 4,
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**22**	(36)	**(327)**	(1
Change in unrealized appreciation (depreciation) of all other investments	**2,409**	(2,991)	**5,836**	(2,4
Change in foreign currency translation adjustments	**313**	(37)	**221**	(4
Change in retirement plan liabilities adjustment	**(10)**	27	**(8)**	
Other comprehensive income (loss)	**2,734**	(3,037)	**5,722**	(3,0
Comprehensive income (loss)	**4,658**	(1,246)	**7,443**	1,
Comprehensive income (loss) attributable to noncontrolling interests	**11**	(9)	**(9)**	
Comprehensive income (loss) attributable to AIG	**$4,647**	$(1,237)	**$7,452**	$ 1,

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED Statements of Equity *(unaudited)*

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

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Six Months Ended June 30, *(in millions)*	2016	2015
Cash flows from operating activities:		
Net income	$ 1,721	$ 4,268
(Income) loss from discontinued operations	57	(17)
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	(907)	(666)
Net (gain) loss on sale of divested businesses	(223)	7
Losses on extinguishment of debt	90	410
Unrealized (gains) losses in earnings - net	1,130	(1,425)
Equity in (income) loss from equity method investments, net of dividends or distributions	145	(715)
Depreciation and other amortization	2,270	2,410
Impairments of assets	636	471
Changes in operating assets and liabilities:		
Insurance reserves	313	(420)
Premiums and other receivables and payables - net	(614)	(1,359)
Reinsurance assets and funds held under reinsurance treaties	(988)	573
Capitalization of deferred policy acquisition costs	(2,554)	(2,880)
Current and deferred income taxes - net	750	1,739
Other, net	(1,255)	(1,903)
Total adjustments	(1,207)	(3,758)
Net cash provided by operating activities	571	493
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale investments	13,540	14,144
Other securities	2,246	3,998
Other invested assets	3,687	6,218
Maturities of fixed maturity securities available for sale	12,350	12,176
Principal payments received on and sales of mortgage and other loans receivable	2,964	2,470
Purchases of:		
Available for sale investments	(27,573)	(24,198)
Other securities	(381)	(583)
Other invested assets	(1,602)	(1,743)
Mortgage and other loans receivable	(5,081)	(4,459)

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 650**	$ 760
Taxes	**$ 117**	$ 338
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,797**	$ 1,826
Non-cash consideration received from sale of AerCap	**$ -**	$ 500

See accompanying Notes to Condensed Consolidated Financial Statements.

6

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading global insurance organization serving customers in more than 100 countries and jurisdictions. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms “AIG,” “we,” “us” or “our” mean American International Group, Inc. and its consolidated subsidiaries and the term “AIG Parent” means American International Group, Inc. and not any of its consolidated subsidiaries.

These unaudited Condensed Consolidated Financial Statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited Consolidated Financial Statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Annual Report). The condensed consolidated financial information as of December 31, 2015 included herein has been derived from the audited Consolidated Financial Statements in the 2015 Annual Report.

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2016 and prior to the issuance of these Condensed Consolidated Financial Statements.

Sale of ILFC

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

Finance Corporation (ILFC) to AerCap Ireland Limited, a wholly owned subsidiary of AerCap Holdings N.V. (AerCap), in exchange for total consideration of approximately $7.6 billion, including cash and 97.6 million newly issued AerCap common shares (the AerCap Transaction). The total value of the consideration was based in part on AerCap's closing price per share of $47.01 on May 13, 2014.

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

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Use of Estimates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2016

Accounting for Share-Based Payments with Performance Targets

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

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

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Consolidation: Amendments to the Consolidation Analysis

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

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

Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued an accounting standard that provides guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance does not change generally accepted accounting principles applicable to a customer's accounting for service contracts. Consequently, all software licenses will be accounted for consistent with other licenses of intangible assets.

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

Simplifying the Presentation of Debt Issuance Costs

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

We adopted this standard on a retrospective basis on January 1, 2016, its required effective date. Because the new standard did not affect accounting recognition or measurement of debt issuance costs, the adoption of the standard did not have a material effect on our consolidated financial condition, results of operations or cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Future Application of Accounting Standards

Revenue Recognition

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2017 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt the standard on its required effective date of January 1, 2018 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Short Duration Insurance Contracts

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

We plan to adopt the standard on its required effective date. Because the new standard does not affect accounting recognition or measurement, the adoption of the standard will have no effect on our consolidated financial condition, results of operations or cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Leases

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

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

Derivative Contract Novations

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Contingent Put and Call Options in Debt Instruments

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Simplifying the Transition to the Equity Method of Accounting

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Improvements to Employee Share-Based Payment Accounting

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Calculation of Credit Losses

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods after December 15, 2018. We are assessing the impact of the standard on our consolidated financial condition, results of operations or cash flows.

TABLE OF CONTENTS

Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

3. SEGMENT INFORMATION

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

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

The following tables present our operations by reportable segment:

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

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

13

TABLE OF CONTENTS

Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

4. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

- **Level 3:** Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions about the inputs a hypothetical market participant would use to value that asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2016 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting	Cash Collateral[b]	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 19	$ 2,248	$ -	$ -	$ -	$ 2,267
Obligations of states, municipalities and political subdivisions	-	26,464	2,313	-	-	28,777
Non-U.S. governments	654	19,410	28	-	-	20,092
Corporate debt	-	141,325	836	-	-	142,161
RMBS	-	20,665	16,779	-	-	37,444
CMBS	-	12,679	2,295	-	-	14,974
CDO/ABS	-	9,299	7,075	-	-	16,374
Total bonds available for sale	673	232,090	29,326	-	-	262,089
Other bond securities:						
U.S. government and government sponsored entities	136	3,459	-	-	-	3,595
Obligations of states, municipalities and political subdivisions	-	-	-	-	-	-
Non-U.S. governments	-	55	-	-	-	55

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative assets:						
Interest rate contracts	-	5,014	15	-	-	5,029
Foreign exchange contracts	-	1,495	1	-	-	1,496
Equity contracts	104	123	52	-	-	279
Credit contracts	-	-	3	-	-	3
Other contracts	-	-	23	-	-	23
Counterparty netting and cash collateral	-	-	-	(2,192)	(3,233)	(5,425)
Total derivative assets	104	6,632	94	(2,192)	(3,233)	1,405
Short-term investments	2,453	1,496	-	-	-	3,949
Separate account assets	74,755	5,817	-	-	-	80,572
Total	$ 80,409	$ 253,253	$ 37,670	$ (2,192)	$ (3,233)	$ 365,907
Liabilities:						
Policyholder contract deposits	$ -	$ 26	$ 3,990	$ -	$ -	$ 4,016
Other policyholder funds	5	-	-	-	-	5
Derivative liabilities:						
Interest rate contracts	-	2,965	61	-	-	3,026
Foreign exchange contracts	-	1,441	10	-	-	1,451
Equity contracts	-	5	-	-	-	5
Credit contracts	-	-	376	-	-	376
Other contracts	-	-	125	-	-	125
Counterparty netting and cash collateral	-	-	-	(2,192)	(738)	(2,930)
Total derivative liabilities	-	4,411	572	(2,192)	(738)	2,053
Long-term debt	-	3,680	67	-	-	3,747
Other liabilities	114	127	-	-	-	241
Total	$ 119	$ 8,244	$ 4,629	$ (2,192)	$ (738)	$ 10,062

December 31, 2015 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting(a)	Cash Collateral(b)	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ -	$ 1,844	$ -	$ -	$ -	$ 1,844
Obligations of states, municipalities and political subdivisions	-	25,199	2,124	-	-	27,323
Non-U.S. governments	683	17,480	32	-	-	18,195
Corporate debt	-	134,618	1,370	-	-	135,988
RMBS	-	19,690	16,537	-	-	36,227
CMBS	-	10,986	2,585	-	-	13,571
CDO/ABS	-	8,928	6,169	-	-	15,097
Total bonds available for sale	683	218,745	28,817	-	-	248,245

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Equity securities available for sale:						
Common stock	2,401	-	-	-	-	2,401
Preferred stock	22	-	-	-	-	22
Mutual funds	491	1	-	-	-	492
Total equity securities available for sale	2,914	1	-	-	-	2,915
Other equity securities	906	1	14	-	-	921
Mortgage and other loans receivable	-	-	11	-	-	11
Other invested assets[(a)]	2	1	332	-	-	335
Derivative assets:						
Interest rate contracts	-	3,150	12	-	-	3,162
Foreign exchange contracts	-	766	-	-	-	766
Equity contracts	91	32	54	-	-	177
Credit contracts	-	-	3	-	-	3
Other contracts	-	2	21	-	-	23
Counterparty netting and cash collateral	-	-	-	(1,268)	(1,554)	(2,822)
Total derivative assets	91	3,950	90	(1,268)	(1,554)	1,309
Short-term investments	1,416	1,175	-	-	-	2,591
Separate account assets	73,699	5,875	-	-	-	79,574
Total	$ 79,711	$ 237,684	$ 38,110	$ (1,268)	$ (1,554)	$ 352,683
Liabilities:						
Policyholder contract deposits	$ -	$ 36	$ 2,289	$ -	$ -	$ 2,325
Other policyholder funds	6	-	-	-	-	6
Derivative liabilities:						
Interest rate contracts	-	2,137	62	-	-	2,199
Foreign exchange contracts	-	1,197	7	-	-	1,204
Equity contracts	-	68	-	-	-	68
Credit contracts	-	-	508	-	-	508
Other contracts	-	-	69	-	-	69
Counterparty netting and cash collateral	-	-	-	(1,268)	(760)	(2,028)
Total derivative liabilities	-	3,402	646	(1,268)	(760)	2,020
Long-term debt	-	3,487	183	-	-	3,670
Other liabilities	-	62	-	-	-	62
Total	$ 6	$ 6,987	$ 3,118	$ (1,268)	$ (760)	$ 8,083

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market.

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and six-month periods ended June 30, 2016 and 2015 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at June 30, 2016 and 2015:

(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 June 30, 2016					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,196	$ 2	$ 136	$ (21)	$
Non-U.S. governments	30	-	-	2	
Corporate debt	1,024	2	7	(65)	19
RMBS	16,162	234	61	61	20
CMBS	2,368	16	10	(87)	
CDO/ABS	6,592	8	93	382	
Total bonds available for sale	28,372	262	307	272	45
Other bond securities:					
Corporate debt	18	1	-	(1)	
RMBS	1,513	14	-	(41)	
CMBS	170	-	-	(2)	
CDO/ABS	6,576	109	-	(308)	

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(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		Gr Transf
Liabilities:										
Policyholder contract deposits	$	3,251	$	598	$	-	$	141	$	
Derivative liabilities, net:										
Interest rate contracts		48		3		-		(5)		
Foreign exchange contracts		9		1		-		(1)		
Equity contracts		(51)		(4)		-		3		
Commodity contracts		-		-		-		-		
Credit contracts		490		(28)		-		(89)		
Other contracts		121		(24)		-		5		
Total derivative liabilities, net[(a)]		617		(52)		-		(87)		
Long-term debt[(b)]		184		(2)		-		(2)		
Total	$	4,052	$	544	$	-	$	52	$	

(in millions)		Fair Value Beginning of Period[(a)]		Net Realized and Unrealized Gains (Losses) Included in Income		Other Comprehensive Income (Loss)		Purchases, Sales, Issues and Settlements, Net		Gr Transf
Six Months Ended June 30, 2016										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions	$	2,124	$	2	$	194	$	(7)	$	
Non-U.S. governments		32		-		(2)		2		
Corporate debt		1,370		3		(17)		(36)		3
RMBS		16,537		479		(359)		(172)		2
CMBS		2,585		58		(78)		(168)		
CDO/ABS		6,169		20		43		820		
Total bonds available for sale		28,817		562		(219)		439		6
Other bond securities:										
Corporate debt		17		2		-		(1)		

RMBS	1,581	(23)	-	(54)	
CMBS	193	(2)	-	(23)	
CDO/ABS	7,055	(24)	-	(719)	
Total other bond securities	8,846	(47)	-	(797)	
Equity securities available for sale:					
Common stock	-	-	-	-	
Total equity securities available for sale	-	-	-	-	
Other equity securities	14	-	-	-	
Mortgage and other loans receivable	11	-	-	-	
Other invested assets	332	(1)	1	(37)	
Total	$ 38,020	$ 514	$ (218)	$ (395)	$ 6

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(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	Gros Transfe
Three Months Ended June 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,256	$ -	$ (124)	$ 93	$
Non-U.S. governments	34	-	(1)	-	
Corporate debt	1,827	14	(50)	(85)	41
RMBS	17,345	281	(99)	(430)	
CMBS	2,694	22	(40)	17	
CDO/ABS	6,453	97	(196)	(283)	
Total bonds available for sale	30,609	414	(510)	(688)	41
Other bond securities:					
Corporate debt	16	-	-	-	

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(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	Gros Transfe
Six Months Ended June 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions[c]	$ 2,159	$ 1	$ (79)	$ 158	$
Non-U.S. governments	30	-	(1)	4	
Corporate debt	1,883	14	(33)	(146)	45
RMBS	16,805	539	(171)	(76)	
CMBS	2,696	46	(30)	47	
CDO/ABS	6,110	130	(167)	119	
Total bonds available for sale	29,683	730	(481)	106	45
Other bond securities:					
Corporate debt	-	-	-	-	1

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

21

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(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	Gross Transfers In
Liabilities:					
Policyholder contract deposits	$ 1,509	$ (461)	$ -	$ 184	$ - $
Derivative liabilities, net:					
Interest rate contracts	74	-	-	(12)	-
Foreign exchange contracts	8	(3)	-	2	-
Equity contracts	(47)	(6)	-	(10)	-
Credit contracts	978	(160)	-	(267)	-
Other contracts	59	(73)	-	30	-
Total derivatives liabilities, net[(a)]	1,072	(242)	-	(257)	-
Long-term debt[(b)]	213	(2)	-	(18)	-
Total	$ 2,794	$ (705)	$ -	$ (91)	$ - $

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

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

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

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

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

(in millions)		Purchases	Sales	Settlements	Purchase Sales, Issues ar Settlements, Net
Three Months Ended June 30, 2016					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	**$**	**17$**	**(7)$**	**(31)$**	**(2**
Non-U.S. governments		**2**	**-**	**-**	
Corporate debt		**-**	**(25)**	**(40)**	**(6**
RMBS		**1,040**	**-**	**(979)**	**(**
CMBS		**4**	**(27)**	**(64)**	**(8**
CDO/ABS		**612**	**(11)**	**(219)**	**38**
Total bonds available for sale		**1,675**	**(70)**	**(1,333)**	**27**
Other bond securities:					

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

23

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Equity securities available for sale		**-**	**-**	**-**	
Other equity securities		**-**	**-**	**-**	
Other invested assets		**9**	**(2)**	**(23)**	**(1**
Total assets	**$**	**1,771$**	**(91)$**	**(1,776)$**	**(9**
Liabilities:					
Policyholder contract deposits	**$**	**-$**	**140$**	**1$**	**14**
Derivative liabilities, net		**(1)**	**-**	**(86)**	**(8**
Long-term debt[b]		**-**	**-**	**(2)**	**(**
Total liabilities	**$**	**(1)$**	**140$**	**(87)$**	**5**
Three Months Ended June 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$	116$	-$	(23)$	9
Non-U.S. governments		2	-	(2)	
Corporate debt		182	(10)	(257)	(8
RMBS		446	(143)	(733)	(43
CMBS		70	-	(53)	1
CDO/ABS		282	(178)	(387)	(28
Total bonds available for sale		1,098	(331)	(1,455)	(68
Other bond securities:					
RMBS		64	(4)	(44)	1
CMBS		-	(43)	(11)	(5
CDO/ABS		12	(331)	(369)	(68
Total other bond securities		76	(378)	(424)	(72
Equity securities available for sale		-	(2)	(1)	(
Other invested assets		(42)	(2)	(7)	(5
Total assets	$	1,132$	(713)$	(1,887)$	(1,46
Liabilities:					
Policyholder contract deposits	$	-$	112$	21$	13
Derivative liabilities, net		(2)	-	(212)	(21
Long-term debt[b]		-	-	(6)	(
Total liabilities	$	(2)$	112$	(197)$	(8
(in millions)		Purchases	Sales	Settlements	Purchase Sales, Issues ar Settlements, Net
Six Months Ended June 30, 2016					
Assets:					

Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 46	$ (7)	$ (46)	$ (
Non-U.S. governments	3	-	(1)	
Corporate debt	29	(25)	(40)	(3
RMBS	1,543	(58)	(1,657)	(17
CMBS	106	(58)	(216)	(16
CDO/ABS	1,151	(11)	(320)	82
Total bonds available for sale	2,878	(159)	(2,280)	43

24

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Other bond securities:								
Corporate debt		**-**		**-**		**(1)**		**(1)**
RMBS		**89**		**(26)**		**(117)**		**(54)**
CMBS		**53**		**(71)**		**(5)**		**(23)**
CDO/ABS		**69**		**(36)**		**(752)**		**(719)**
Total other bond securities		**211**		**(133)**		**(875)**		**(797)**
Equity securities available for sale		**-**		**-**		**-**		**-**
Other equity securities		**14**		**-**		**(14)**		**-**
Other invested assets		**18**		**(2)**		**(53)**		**(37)**
Total assets	**$**	**3,121**	**$**	**(294)**	**$**	**(3,222)**	**$**	**(395)**
Liabilities:								
Policyholder contract deposits	**$**	**-**	**$**	**270**	**$**	**(12)**	**$**	**258**
Derivative liabilities, net		**(3)**		**-**		**(80)**		**(83)**
Long-term debt[(b)]		**-**		**-**		**(3)**		**(3)**
Total liabilities	**$**	**(3)**	**$**	**270**	**$**	**(95)**	**$**	**172**
Six Months Ended June 30, 2015								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions[(c)]	$	223	$	(22)	$	(43)	$	158
Non-U.S. governments		8		-		(4)		4
Corporate debt		188		(60)		(274)		(146)
RMBS		1,407		(165)		(1,318)		(76)
CMBS		142		(27)		(68)		47
CDO/ABS		861		(201)		(541)		119
Total bonds available for sale		2,829		(475)		(2,248)		106
Other bond securities:								
RMBS		309		(10)		(79)		220
CMBS		-		(79)		(75)		(154)
CDO/ABS		226		(371)		(781)		(926)
Total other bond securities		535		(460)		(935)		(860)
Equity securities available for sale		-		(2)		(1)		(3)
Other invested assets		27		(587)		(29)		(589)
Total assets	$	3,391	$	(1,524)	$	(3,213)	$	(1,346)
Liabilities:								
Policyholder contract deposits	$	-	$	185	$	(1)	$	184
Derivative liabilities, net		(17)		-		(240)		(257)
Long-term debt[(b)]		-		-		(18)		(18)

Total liabilities	$ (17)	$ 185	$ (259)	$ (91)

(a) There were no issuances during the three- and six-month periods ended June 30, 2016 and 2015, respectively.

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

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at June 30, 2016 and 2015 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).

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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. The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excluded $3 million of net gains and $10 million of net losses, related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2016, respectively, and included $8 million and $53 million, of net losses related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2016, respectively.

The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above contained no material net gains (losses) related to assets and liabilities transferred into or out of Level 3 during the three-month period ended June 30, 2015. The Net realized and unrealized gains (losses) included in income or Other comprehensive income (loss) as shown in the table above excluded $18 million of net gains related to assets and liabilities transferred into Level 3, and included $3 million of net gains related to assets and liabilities transferred out of Level 3 during the six-month period ended June 30, 2015.

Transfers of Level 3 Assets

During the three- and six-month periods ended June 30, 2016 and 2015, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS and CDO/ABS. Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types.

During the three- and six-month periods ended June 30, 2016 and 2015, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, CDO/ABS, RMBS and certain investments in municipal securities. Transfers of certain investments municipal securities, corporate debt, RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three- and six-month periods ended June 30, 2016 and 2015.

TABLE OF CONTENTS

Item 1 / NOTE 4. 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 independent third party valuation service providers and from internal valuation models. Because input information from third parties with respect to certain Level 3 instruments (primarily CDO/ABS) may not be reasonably available to us, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities**:**

(in millions)		**Fair Value at June 30, 2016**	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	**$**	**1,448**	Discounted cash flow	Yield	3.44% - 4.29% (3.86%)
Corporate debt		**386**	Discounted cash flow	Yield	3.80% - 4.77% (4.29%)
RMBS[a]		**17,238**	Discounted cash flow	Constant prepayment rate	1.26% - 8.84% (5.05%)
				Loss severity	46.90% - 80.26% (63.58%)
				Constant default rate	3.41% - 9.02% (6.22%)
				Yield	2.78% - 6.07% (4.43%)
CDO/ABS[a]		**3,017**	Discounted cash flow	Yield	3.54% - 5.55% (4.54%)
CMBS		**73**	Discounted cash flow	Yield	

				1.32% - 2.73% (2.03%)
Liabilities:				
Embedded derivatives within Policyholder contract deposits:				
GMWB and GMAB	**2,710**	Discounted cash flow	Equity volatility	15.00% - 50.00%
			Base lapse rate	1.00% - 17.00%
			Dynamic lapse rate	0.20% - 25.50%
			Mortality multiplier(c)	80.00% - 104.27%
			Utilization rate	0.00% - 70.00%
			Equity / interest-rate correlation	20.00% - 40.00%
Index Annuities	**963**	Discounted cash flow	Lapse rate	0.75% - 66.00%
			Mortality multiplier(c)	50.00% - 75.00%
Indexed Life	**345**	Discounted cash flow	Equity volatility	12.62% to 21.70%
			Base lapse rate	2.00% to 19.00%
			Mortality rate	0.00% to 40.00%

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)		Fair Value at December 31, 2015	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and					
political subdivisions	$	1,217	Discounted cash flow	Yield	4.32% - 5.10% (4.71%)
Corporate debt		642	Discounted cash flow	Yield	5.63% - 12.45% (9.04%)
RMBS[a]		17,280	Discounted cash flow	Constant prepayment rate	0.99% - 8.95% (4.97%)
				Loss severity	47.21% - 79.50% (63.35%)
				Constant default rate	3.49% - 9.04% (6.26%)
				Yield	3.13% - 6.14% (4.63%)
CDO/ABS[a]		3,338	Discounted cash flow	Yield	3.41% - 4.98% (4.19%)
CMBS		2,388	Discounted cash flow	Yield	0.00% - 17.65% (6.62%)
Liabilities:					
Embedded derivatives within Policyholder contract deposits:					

GMWB and GMAB	1,234 Discounted cash flow	Equity volatility	15.00% - 50.00%
		Base lapse rate	1.00% - 17.00%
		Dynamic lapse rate	0.20% - 25.50%
		Mortality multiplier(c)	80.00% - 104.27%
		Utilization rate	0.00% - 70.00%
		Equity / interest-rate correlation	20.00% - 40.00%
Index Annuities	715 Discounted cash flow	Lapse rate	0.75% - 66.00%
		Mortality multiplier(c)	50.00% - 75.00%
Indexed Life	332 Discounted cash flow	Equity volatility	13.25% to 22.00%
		Base lapse rate	2.00% to 19.00%
		Mortality rate	0.00% to 40.00%

(a) Information received from third-party valuation service providers. The ranges of the unobservable inputs for 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) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table for GMWB and GMAB, and the 1975-1980 Modified Basic Table for index annuities.

The ranges of reported inputs for Obligations of states, municipalities and political subdivisions, Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of 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 Level 3 assets and liabilities.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 paragraphs provide 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 the fair value measurement of certain investments in obligations of states, municipalities and political subdivisions is yield. In general, increases in the yield would decrease the fair value of investments in obligations of states, municipalities and political subdivisions.

Corporate Debt

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

RMBS and 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.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

Embedded derivatives within Policyholder contract deposits

Embedded derivatives reported within Policyholder contract deposits include guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum accumulation benefits (GMAB) within variable annuity products, and interest crediting rates based on market indices within index annuities, indexed life and guaranteed investment contracts (GICs). For any given contract, assumptions for unobservable inputs vary throughout the period over which cash flows are projected for purposes of valuing the embedded derivative. The following unobservable inputs are used for valuing embedded derivatives measured at fair value:

• Long-term equity volatilities represent equity volatility beyond the period for which observable equity volatilities are available. Increases in assumed volatility will generally increase the fair value of both the projected cash flows from rider fees as well as the projected cash flows related to benefit payments. Therefore, the net change in the fair value of the liability may be either a decrease or an increase, depending on the relative changes in projected rider fees and projected benefit payments.

• Equity / interest rate correlation estimates the relationship between changes in equity returns and interest rates in the economic scenario generator used to value our GMWB and GMAB embedded derivatives. In general, a higher positive correlation assumes that equity markets and interest rates move in a more correlated fashion, which generally increases the fair value of the liability.

• Base lapse rate assumptions are determined by company experience and are adjusted at the contract level using a dynamic lapse function, which reduces the base lapse rate when the contract is in-the-money (when the contract holder's guaranteed value, as estimated by the company, is worth more than their underlying account value). Lapse rates are also generally assumed to be lower in periods when a surrender charge applies. Increases in assumed lapse rates will generally decrease the fair value of the liability, as fewer policyholders would persist to collect guaranteed withdrawal amounts, but in certain scenarios, increases in assumed lapse rates may increase the fair value of the liability.

• Mortality rate assumptions, which vary by age and gender, are based on company experience and include a mortality improvement assumption. Increases in assumed mortality rates will decrease the fair value of the liability, while lower mortality rate assumptions will generally increase the fair value of the liability, because guaranteed payments will be made for a longer period of time.

• Utilization rate assumptions estimate the timing when policyholders with a GMWB will elect to utilize their benefit and begin taking withdrawals. The assumptions may vary by the type of guarantee, tax-qualified status, the contract's withdrawal history and the age of the policyholder. Utilization rate assumptions are based on company experience, which includes partial withdrawal behavior. Increases in assumed utilization rates will generally increase the fair value of the liability.

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

		June 30, 2016		December 31, 2015	
(in millions)	Investment Category Includes	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using NAV 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	**$ 1,560**	**$ 547**	$ 1,774	$ 436
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**266**	**227**	306	213
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an	**99**	**34**	107	41

	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	**134**	**42**	146	41
Other	Includes multi-strategy, mezzanine and other strategies	**282**	**248**	298	239
Total private equity funds		**2,341**	**1,098**	2,631	970
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**700**	**-**	1,194	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**2,240**	**28**	2,978	25
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**573**	**-**	555	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**640**	**7**	699	8
Emerging markets	Investments in the financial markets of developing countries	**300**	**-**	353	-
Other	Includes multi-strategy, relative value and other strategies	**140**	**-**	167	-
Total hedge funds		**4,593**	**35**	5,946	33
Total		**$ 6,934**	**$ 1,133**	$ 8,577	$ 1,003

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager’s discretion, typically in one- or two year increments. At June 30, 2016, assuming average original expected lives of 10 years for the funds, 78 percent of the total fair value using NAV per share (or its equivalent) presented above would have expected remaining lives of three years or less, 10 percent between four and six years and 12 percent between seven and 10 years.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The hedge fund investments included above, which are carried at fair value, are generally redeemable monthly (14 percent), quarterly (41 percent), semi annually (12 percent) and annually (33 percent), with redemption notices ranging from one day to 180 days. At June 30, 2016, investments representing approximately 81 percent of the total fair value of these hedge fund investments had partial contractual redemption restrictions. These partial redemption restrictions are generally related to one or more investments held in the hedge funds that the fund manager deemed to be illiquid. 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. The majority of these restrictions are generally expected to be lifted by the end of 2017.

Fair Value Option

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

	Gain (Loss) Three Months Ended June 30,		Gain (Loss) Six Months Ended June 30,	
(in millions)	**2016**	2015	**2016**	2015
Assets:				
Bond and equity securities	**$ 248**	$ 460	**$ 298**	$ 601
Alternative Investments[a]	**33**	118	**(214)**	263
Other, including Short-term investments	**-**	-	**-**	2
Liabilities:				
Long-term debt[b]	**(71)**	131	**(247)**	55
Other liabilities	**-**	-	**-**	(3)
Total gain (loss)	**$ 210**	$ 709	**$ (163)**	$ 918

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

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

We recognized gains of $3 million and $8 million during the three- and six-month periods ended June 30, 2016, respectively, and gains of $5 million and $11 million during the three- and six-month periods ended June 30, 2015, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	June 30, 2016			December 31, 2015		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 11**	**$ 8**	**$ 3**	$ 11	$ 9	$ 2
Liabilities:						
Long-term debt*	**$ 3,747**	**$ 2,594**	**$ 1,153**	$ 3,670	$ 2,675	$ 995

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

32

TABLE OF CONTENTS

Item 1 / NOTE 4. 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 June 30,		Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2016**	2015	**2016**	2015
June 30, 2016								
Other investments	**$ -**	**$ -**	**$ 176**	**$ 176**	**$ 29**	$ 27	**$ 31**	$ 52
Investments in life settlements	**-**	**-**	**534**	**534**	**92**	72	**249**	142
Other assets	**-**	**-**	**1**	**1**	**9**	4	**9**	8
Total	**$ -**	**$ -**	**$ 711**	**$ 711**	**$ 130**	$ 103	**$ 289**	$ 202
December 31, 2015								
Other investments	$ -	$ -	$ 1,117	$ 1,117				
Investments in life settlements	-	-	828	828				
Other assets	-	-	129	129				
Total	$ -	$ -	$ 2,074	$ 2,074				

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
June 30, 2016					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 174**	**$ 32,795**	**$ 32,969**	**$ 31,250**
Other invested assets	**-**	**620**	**2,897**	**3,517**	**4,191**
Short-term investments	**-**	**8,385**	**-**	**8,385**	**8,385**

Cash	**1,784**	**-**	**-**	**1,784**	**1,784**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**366**	**126,279**	**126,645**	**111,459**
Other liabilities	**-**	**3,697**	**-**	**3,697**	**3,697**
Long-term debt	**-**	**25,918**	**4,693**	**30,611**	**29,582**
December 31, 2015					
Assets:					
Mortgage and other loans receivable	$ -	$ 198	$ 30,147	$ 30,345	$ 29,554
Other invested assets	-	563	2,880	3,443	4,169
Short-term investments	-	7,541	-	7,541	7,541
Cash	1,629	-	-	1,629	1,629
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	309	117,537	117,846	108,788
Other liabilities	-	2,852	-	2,852	2,852
Long-term debt	-	21,686	4,528	26,214	25,579

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5. INVESTMENTS

Securities Available for Sale

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

Other-Than-