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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

13-2592361

(State or other jurisdiction of

incorporation or organization)

(I.R.S. Employer

Identification No.)

175 Water Street, New York, New York

10038

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a

smaller reporting company)

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

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

AMERICAN INTERNATIONAL GROUP, INC.

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

March 31, 2014

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FORM 10-Q

PART II — OTHER INFORMATION

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

Condensed Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)	**March 31, 2014**	December 31, 2013
Assets:		
Investments:		

Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2014 – $249,200; 2013 – $248,531)	**$ 262,937**	$ 258,274
Other bond securities, at fair value (See Note 6)	**21,718**	22,623
Equity Securities:		
Common and preferred stock available for sale, at fair value (cost: 2014 – $2,076; 2013 – $1,726)	**3,878**	3,656

Other common and preferred stock, at fair value (See Note 6)	**725**	834
Mortgage and other loans receivable, net of allowance	**21,569**	20,765
Other invested assets (portion measured at fair value: 2014 – $8,867; 2013 – $8,598)	**29,050**	28,659
Short-term investments (portion measured at fair value: 2014 – $3,753; 2013 – $6,313)	**17,658**	21,617
Total investments	**357,535**	356,428

Cash	**2,490**	2,241
Accrued investment income	**2,924**	2,905
Premiums and other receivables, net of allowance	**14,269**	12,939
Reinsurance assets, net of allowance	**25,346**	23,829
Deferred income taxes		

21,631

21,925

Deferred policy acquisition costs

9,217

9,436

Derivative assets, at fair value

1,601

1,665

Other assets, including restricted cash of $862 in 2014 and $865 in 2013 (portion measured at fair value:

2014 – $0; 2013 – $418)

8,738

9,366

Separate account assets, at fair value

72,593

71,059

Assets held-for-sale

30,767

29,536

Total assets

$

547,111

$

541,329

Liabilities:

Liability for unpaid claims and claims adjustment expense

$

81,155

$

81,547

Unearned premiums

23,383

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

Long-term debt (portion measured at fair value: 2014 – $6,019; 2013 – $6,747)	**39,508**	41,693
Separate account liabilities	**72,593**	71,059
Liabilities held-for-sale	**25,815**	24,548
Total liabilities	**442,691**	440,218
Contingencies, commitments and guarantees (see Note 10)		

Redeemable noncontrolling interests (see Note 12)

27

30

AIG shareholders' equity:

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

2013 – 1,906,645,689

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

Three Months Ended March 31,

(dollars in millions, except per share data)

2014

2013

Revenues:

Premiums

$

9,038

$

9,372

Policy fees

692

615

Net investment income

4,196

4,164

Net realized capital gains (losses):

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

(50)

(40)

Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)

(4)

(1)

Net other-than-temporary impairments on available for sale securities recognized in net income

(54)

	(41)
Other realized capital gains (losses)	
	(159)
	341
Total net realized capital gains (losses)	

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

1,286

1,437

Total revenues

16,112

16,962

Benefits, claims and expenses:

Policyholder benefits and claims incurred

6,797

	6,728
Interest credited to policyholder account balances	
	955
	1,017
Amortization of deferred policy acquisition costs	

	1,305
	1,286
Other acquisition and insurance expenses	
	2,117
	2,238
Interest expense	

479

577

Aircraft leasing expenses

1,096

1,031

Loss on extinguishment of debt	
	238
	340
Net (gain) loss on sale of properties and divested businesses	

	(4)
	-
Other expenses	
	856
	870
Total benefits, claims and expenses	

	13,839	14,087
Income from continuing operations before income tax expense		
	2,273	2,875
Income tax expense		

614

717

Income from continuing operations

1,659

2,158

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

	(47)
	73
Net income	
	1,612

2,231

Less:

Net income from continuing operations attributable to

noncontrolling interests

3

25

Net income attributable to AIG

$

1,609

$

2,206

Income per common share attributable to AIG:

Basic:

Income from continuing operations	**$ 1.13**	$ 1.44
Income (loss) from discontinued operations		

$

(0.03)

$

0.05

Net income attributable to AIG

$

1.10

$

1.49

Diluted:

Income from continuing operations

$

1.12

$

1.44

Income (loss) from discontinued operations

$

(0.03)

$

0.05

Net income attributable to AIG

$

1.09

$

1.49

Weighted average shares outstanding:

Basic

	1,459,249,393
	1,476,471,097
Diluted	
	1,472,510,813
	1,476,678,931
Dividends declared per common share	

$

0.125

$

-

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

cONDENSED Consolidated Statements of Comprehensive Income *(unaudited)*

Three Months Ended March 31,

(in millions)	**2014**	2013
Net income	**$ 1,612**	

$

2,231

Other comprehensive income (loss), net of tax

Change in unrealized appreciation of fixed maturity investments on

which other-than-temporary credit impairments were taken

89

282

Change in unrealized appreciation (depreciation) of all other investments	**2,785**	(788)
Change in foreign currency translation adjustments	**(158)**	(273)
Change in retirement plan liabilities adjustment	**9**	44
Other comprehensive income (loss)		

	2,725
	(735)
Comprehensive income	
	4,337
	1,496
Comprehensive income attributable to noncontrolling interests	
	3
	25
Comprehensive income attributable to AIG	
	$

4,334

$

1,471

See accompanying Notes to Condensed Consolidated Financial Statements.

Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statement of Equity *(unaudited)*

Non-

Accumulated

Total AIG

redeemable

Additional

Other

Share-

Non-

Common

Treasury

Paid-in

Retained

Comprehensive

holders'

controlling

Total

(in millions)

Stock

Stock

Capital

Earnings

Income

Equity

Interests

Equity

Three Months Ended March 31, 2014

Balance, beginning of year	
	$
	4,766
	$
	(14,520)
	$
	80,899
	$
	22,965
	$
	6,360
	$
	100,470
	$
	611
	$
	101,081
Purchase of common stock	
	-
	(867)
	-
	-

-

(867)

-

(867)

Net income attributable to AIG or other

noncontrolling interests

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

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

	-
	-
	-
	-
	-
	-
	(34)
	(34)
Contributions from noncontrolling interests	
	-
	-
	-
	-
	-

-

5

5

Distributions to noncontrolling interests

-

-

-

-

-

-

(22)

(22)

Other

-

1

76

1

-

78

(3)

75

Balance, end of period

$

4,766

$

(15,386)

$

80,975

$

24,393

$

9,085

$

103,833

$

560

$

104,393

Three Months Ended March 31, 2013

Balance, beginning of year

$

4,766

$

(13,924)

$

80,410

$

14,176

$

12,574

$

98,002

$

667

$

98,669

Net income attributable to AIG or other

noncontrolling interests

-

-

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

	(1)
	(736)
Contributions from noncontrolling interests	
	-
	-
	-
	-
	-
	-
	8
	8
Distributions to noncontrolling interests	
	-
	-

-

-

-

-

(19)

(19)

Other

-

1

46

-

-

47

(2)

45

Balance, end of period

$

4,766

$

(13,923)

$

80,456

$

16,382

$

11,839

$

99,520

$

663

$

100,183

See accompanying Notes to Condensed Consolidated Financial Statements.

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Three Months Ended March 31,

(in millions)	**2014**	2013
Cash flows from operating activities:		
Net income	**$ 1,612**	$ 2,231
(Income) loss from discontinued operations		

47

(73)

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

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

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

(246)

(339)

Net (gains) losses on sales of divested businesses

(4)

-

Net losses on extinguishment of debt

238

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

Property casualty and life insurance reserves	**1,495**	643
Premiums and other receivables and payables – net	**(701)**	(458)
Reinsurance assets and funds held under reinsurance treaties	**(1,532)**	(2,035)
Capitalization of deferred policy acquisition costs	**(1,462)**	(1,422)
Current and deferred income taxes – net	**450**	613

Other, net	**(537)**	216
Total adjustments	**(896)**	(2,307)
Net cash provided by (used in) operating activities	**763**	(149)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		

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

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

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

Proceeds from (payments for)		
Policyholder contract deposits	**4,008**	3,262
Policyholder contract withdrawals	**(3,548)**	(4,458)
Issuance of long-term debt	**1,583**	1,395
Repayments of long-term debt	**(3,281)**	(4,337)

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

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

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

Interim period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2014 and prior to the issuance of these condensed consolidated financial statements.

Sale of ILFC

On December 16, 2013, we entered into a definitive agreement with AerCap Holdings N.V. (AerCap) and AerCap Ireland Limited (Purchaser), a wholly owned subsidiary of AerCap, for the sale of 100 percent of the common stock of International Lease Finance Corporation (ILFC) (the AerCap Transaction) for consideration consisting of $3.0 billion in cash, a portion of which will be funded by a special dividend of $600 million to be paid by ILFC to AIG upon consummation of the AerCap Transaction, and approximately 97.6 million newly-issued AerCap common shares. The disposition of the AerCap common shares by AIG will be subject to certain restrictions as to the amount and timing of potential sales in accordance with the definitive agreement. ILFC’s results are reflected in Aircraft leasing revenue and Aircraft leasing expenses in the Condensed Consolidated Statements of Income. The assets and liabilities of ILFC are classified as held for sale at March 31, 2014 and December 31, 2013 in the Condensed Consolidated Balance Sheets. See Note 4 herein for further discussion.

Use of Estimates

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

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

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2014

Certain Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standard that requires us to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount we agreed to pay on the basis of our arrangement among our co obligors and (ii) any additional amount we expect to pay on behalf of our co obligors.

We adopted the standard on its required effective date of January 1, 2014. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued an accounting standard addressing whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in substance real estate) within a foreign entity. The standard also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under this standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Investment Company Guidance

In June 2013, the FASB issued an accounting standard that amends the criteria a company must meet to qualify as an investment company, clarifies the measurement guidance, and requires new disclosures for investment companies. An entity that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 (the 1940 Act) qualifies as an investment company. Entities that are not regulated under the 1940 Act must have certain fundamental characteristics and must consider other characteristics to determine whether they qualify as investment companies. An entity's purpose and design must be considered when making the assessment.

An entity that no longer meets the requirements to be an investment company as a result of this standard should present the change in its status as a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. An entity that is an investment company should apply the standard prospectively as an adjustment to opening net assets as of the effective date. The adjustment to net assets represents both the difference between the fair value and the carrying amount of the entity's investments and any amount previously recognized in Accumulated other comprehensive income.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard that requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward. When the carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax asset.

We adopted the standard on its required effective date of January 1, 2014 on a prospective basis. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Future Application of Accounting Standards

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

In January 2014, the FASB issued an accounting standard that clarifies when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, so that the loan is derecognized and the real estate property is recognized.

We plan to adopt the standard on its required effective date of January 1, 2015 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Reporting Discontinued Operations

In April 2014, the FASB issued an accounting standard that changes the requirements for presenting a component or group of components of an entity as a discontinued operation and requires new disclosures. Under the standard, the disposal of a component or group of components of an entity should be reported as a discontinued operation if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Disposals of equity method investments, or those reported as held-for-sale, will be eligible for presentation as a discontinued operation if they meet the new definition. The standard also requires entities to provide specified disclosures about a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation.

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

3. SEGMENT INFORMATION

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

The following table presents our operations by reportable segment:

2014

2013

Three Months Ended March 31,

Pre-tax Income (Loss)

Pre-tax Income (Loss)

(in millions)

Total Revenues

from continuing operations

Total Revenues

from continuing operations

AIG Property Casualty

Commercial Insurance	**$ 5,642**	**$ 713**	$ 5,773	$ 1,041
Consumer Insurance	**3,258**			

	27
	3,506
	153
Other	
	766
	569
	689
	420
Total AIG Property Casualty	
	9,666
	1,309

9,968

1,614

AIG Life and Retirement

Retail

2,766

665

3,003

996

Institutional

1,585

567

1,737

574

Total AIG Life and Retirement

4,351

1,232

4,740

1,570

Other Operations

Mortgage Guaranty

249

77

231

44

Global Capital Markets	
	59
	29
	273
	227
Direct Investment book	
	465
	355
	411
	312
Corporate & Other	

	382
	(824)
	461
	(1,008)
Aircraft Leasing	
	1,113
	17
	1,074
	43
Consolidation and elimination	
	(8)

	1
	(9)
	1
Total Other Operations	
	2,260
	(345)
	2,441
	(381)
AIG Consolidation and elimination	
	(165)
	77

		(187)
		72
Total AIG Consolidated	**$**	**16,112**
	$	**2,273**
	$	16,962
	$	2,875

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

Held-For-Sale Classification

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

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

	March 31,	December 31,
(in millions)		

	2014	2013
Assets:		
Equity securities	**$ 4**	$ 3
Mortgage and other loans receivable, net	**262**	229
Flight equipment primarily under operating leases, net of accumulated depreciation	**35,612**	35,508
Short-term investments	**1,626**	

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

		(9,334)		
Total assets held-for-sale	**$**	**30,767**	$	29,536
Liabilities:				
Other liabilities	**$**	**3,082**	$	3,127
Long-term debt		**22,733**		21,421
Total liabilities held-for-sale	**$**	**25,815**	$	24,548

Discontinued Operations

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

Three Months Ended March 31,		
(in millions)	**2014**	2013
Revenues:		
Gain (loss) on sale		

	$ (1)	$ 117
Income from discontinued operations, before income tax expense	**(1)**	117
Income tax expense	**46**	44
Income (loss) from discontinued operations, net of income tax expense	**$ (47)**	$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

March 31, 2014

(in millions)	Level 1	Level 2	Level 3	Counterparty Netting*	Cash Collateral	Total

Assets:

Bonds available for sale:

U.S. government and government sponsored entities

$

3

$

2,919

$

-

$

-

$

-

$

2,922

Obligations of states, municipalities and political subdivisions

-

28,547

2,042

-

-

30,589

Non-U.S. governments	
	629
	21,238
	17
	-
	-
	21,884
Corporate debt	
	-
	145,176
	1,815
	-
	-
	146,991

RMBS	
	-
	21,540
	15,764
	-
	-
	37,304
CMBS	
	-
	6,354
	5,741
	-
	-
	12,095

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

Other bond securities:

U.S. government and government sponsored entities	
	28
	5,366
	-
	-
	-
	5,394

Obligations of states, municipalities and political subdivisions	
	-
	122
	-
	-
	-
	122
Non-U.S. governments	
	-
	2
	-
	-
	-
	2

Corporate debt	
	-
	1,108
	-
	-
	-
	1,108
RMBS	
	-
	1,282
	1,069
	-
	-
	2,351

CMBS	
	-
	508
	770
	-
	-
	1,278
CDO/ABS	
	-
	2,965
	8,498
	-
	-
	11,463

Total other bond securities	
	28
	11,353
	10,337
	-
	-
	21,718
Equity securities available for sale:	

Common stock	
	3,078
	1
	-
	-
	-
	3,079
Preferred stock	
	-
	28
	-
	-
	-
	28

Mutual funds	
	767
	4
	-
	-
	-
	771
Total equity securities available for sale	
	3,845
	33
	-
	-
	-
	3,878

Other equity securities	
	653
	72
	-
	-
	-
	725
Other invested assets	
	24
	2,853
	5,990
	-
	-
	8,867

Derivative assets:

Interest rate contracts	
	12
	3,750
	35
	-
	-
	3,797

Foreign exchange contracts	
	-
	37
	-
	-
	-
	37
Equity contracts	
	84
	34
	89
	-
	-
	207

Commodity contracts	
	-
	-
	1
	-
	-
	1
Credit contracts	
	-
	-
	41
	-
	-
	41

Other contracts	
	-
	-
	36
	-
	-
	36
Counterparty netting and cash collateral	
	-
	-
	-
	(1,680)
	(838)
	(2,518)

Total derivative assets	
	96
	3,821
	202
	(1,680)
	(838)
	1,601
Short-term investments	
	392
	3,361
	-
	-
	-
	3,753

Separate account assets	
	69,216
	3,377
	-
	-
	-
	72,593
Other assets	
	-
	-
	-
	-
	-
	-

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

Liabilities:

Policyholder contract deposits	$ - $ 66 $ 765 $ - $ - $ 831
Derivative liabilities:	

Interest rate contracts	
	-
	4,213
	133
	-
	-
	4,346
Foreign exchange contracts	
	-
	254
	-
	-
	-
	254

Equity contracts	
	-
	92
	1
	-
	-
	93
Commodity contracts	
	-
	4
	-
	-
	-
	4

Credit contracts	
	-
	-
	1,226
	-
	-
	1,226
Other contracts	
	-
	26
	145
	-
	-
	171

Counterparty netting and cash collateral	
	-
	-
	-
	(1,680)
	(1,375)
	(3,055)
Total derivative liabilities	
	-
	4,589
	1,505
	(1,680)
	(1,375)
	3,039

Long-term debt	
	-
	5,616
	403
	-
	-
	6,019
Other liabilities	
	87
	451
	-
	-
	-
	538

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

December 31, 2013

				Counterparty	Cash	
(in millions)	Level 1	Level 2	Level 3	Netting*	Collateral	Total
Assets:						

Bonds available for sale:

U.S. government and government sponsored entities	
	$
	133
	$

	3,062
	$
	-
	$
	-
	$
	-
	$
	3,195
Obligations of states, municipalities and political subdivisions	
	-
	28,300
	1,080
	-
	-
	29,380
Non-U.S. governments	
	508

	21,985
	16
	-
	-
	22,509
Corporate debt	
	-
	143,297
	1,255
	-
	-
	144,552
RMBS	
	-

	21,207
	14,941
	-
	-
	36,148
CMBS	
	-
	5,747
	5,735
	-
	-
	11,482
CDO/ABS	
	-

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

U.S. government and government sponsored entities	
	78
	5,645
	-
	-
	-
	5,723
Obligations of states, municipalities and political subdivisions	
	-

	121
	-
	-
	-
	121
Non-U.S. governments	
	-
	2
	-
	-
	-
	2
Corporate debt	
	-

	1,169
	-
	-
	-
	1,169
RMBS	
	-
	1,326
	937
	-
	-
	2,263
CMBS	
	-

	509
	844
	-
	-
	1,353
CDO/ABS	
	-
	3,158
	8,834
	-
	-
	11,992
Total other bond securities	
	78

11,930

10,615

-

-

22,623

Equity securities available for sale:

Common stock

3,218

-

1

-

-

3,219

Preferred stock

-

27

-

-

-

27

Mutual funds

408

	2
	-
	-
	-
	410
Total equity securities available for sale	
	3,626
	29
	1
	-
	-
	3,656
Other equity securities	
	750

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

Interest rate contracts	
	14
	3,716
	41
	-
	-
	3,771
Foreign exchange contracts	
	-

	52
	-
	-
	-
	52
Equity contracts	
	151
	106
	49
	-
	-
	306
Commodity contracts	
	-

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

	1
	33
	-
	-
	34
Counterparty netting and cash collateral	
	-
	-
	-
	(1,734)
	(820)
	(2,554)
Total derivative assets	
	165

3,875

179

(1,734)

(820)

1,665

Short-term investments

332

5,981

-

-

-

6,313

Separate account assets

67,708

	3,351
	-
	-
	-
	71,059
Other assets	
	-
	418
	-
	-
	-
	418
Total	
	$
	73,301
	$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

255,967

$

46,726

$

(1,734)

$

(820)

$

373,440

Liabilities:

Policyholder contract deposits

$

-

$

72

$

312

$

-

$

-

$

384

Derivative liabilities:

Interest rate contracts

-

	3,661
	141
	-
	-
	3,802
Foreign exchange contracts	
	-
	319
	-
	-
	-
	319
Equity contracts	
	-

	101
	-
	-
	-
	101
Commodity contracts	
	-
	5
	-
	-
	-
	5
Credit contracts	
	-

	-
	1,335
	-
	-
	1,335
Other contracts	
	-
	25
	142
	-
	-
	167
Counterparty netting and cash collateral	
	-

	-
	-
	(1,734)
	(1,484)
	(3,218)
Total derivative liabilities	
	-
	4,111
	1,618
	(1,734)
	(1,484)
	2,511
Long-term debt	
	-

	6,377
	370
	-
	-
	6,747
Other liabilities	
	42
	891
	-
	-
	-
	933
Total	
	$
	42
	$

CONDENSED Consolidated Statements of Cash Flows(unaudited)

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the three month periods ended March 31, 2014 and 2013, we transferred $62 million and $239 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, respectively, as they are no longer considered actively traded. For similar reasons, during the three

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-month periods ended March 31, 2014 and 2013 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at March 31, 2014 and 2013:

Net

Changes in

Realized and

Unrealized Gains

Unrealized

Purchases,

(Losses) Included

Fair Value

Gains (Losses)

Other

Sales,

Gross

Gross

Fair Value

in Income on

Beginning

Included

Comprehensive

Issues and

Transfers

Transfers

End

Instruments Held

(in millions)

of Period(a)

in Income

Income (Loss)

Settlements, Net

in

out

of Period

at End of Period

Three Months Ended March 31, 2014

Assets:

Bonds available for sale:

Obligations of states, municipalities

and political subdivisions(b)

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

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

	14,941
	244
	133
	557
	-
	(111)
	15,764
	-
CMBS	
	5,735
	6
	111
	(50)
	-

	(61)
	5,741
	-
CDO/ABS	
	6,974
	34
	2
	8
	66
	(474)
	6,610
	-
Total bonds available for sale	
	30,001

281

382

1,367

714

(756)

31,989

-

Other bond securities:

RMBS	
	937
	28
	-
	104
	-
	-
	1,069
	16
CMBS	
	844

	17
	-
	(91)
	-
	-
	770
	14
CDO/ABS	
	8,834
	335
	-
	(451)
	-
	(220)

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

Common stock	
	1
	-
	-
	-
	-
	(1)

	-
	-
Preferred stock	
	-
	-
	-
	-
	-
	-
	-
	-
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	

	(1,439)
	87
	(1)
	3
	47
	-
	(1,303)
	99
Long-term debt(c)	
	(370)
	(3)
	-
	19

(70)

21

(403)

7

Total

$

(2,121)

$

(390)

$

(9)

$

51

$

(23)

$

21

$

(2,471)

$

24

Net

Changes in

Realized and

Unrealized Gains

Unrealized

Purchases,

(Losses) Included

Fair Value

Gains (Losses)

Other

Sales,

Gross

Gross

Fair Value

in Income on

Beginning

Included

Comprehensive

Issues and

Transfers

Transfers

End

Instruments Held

(in millions)

of Period(a)

in Income

Income (Loss)

Settlements, Net

in

out

of Period

at End of Period

Three Months Ended March 31, 2013

Assets:

Bonds available for sale:

Obligations of states, municipalities

and political subdivisions

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

	-
Non-U.S. governments	
	14
	1
	-
	2
	1
	-
	18
	-
Corporate debt	
	1,487
	(4)
	6

22

77

(139)

1,449

-

RMBS

11,662

205

481

(262)

10

-

12,096

-

CMBS

5,124

11

141

(75)

154

(40)

5,315

-

CDO/ABS

4,841

24

76

639

180

(183)

5,577

-

Total bonds available for sale

24,152

238

699

462

422

(499)

25,474

-

Other bond securities:

RMBS

396

22

-

74

238

-

730

(17)

CMBS

812

12

-

(99)

159

(108)

776

(25)

CDO/ABS

	8,536
	284
	-
	(436)
	486
	(28)
	8,842
	82
Total other bond securities	
	9,744
	318
	-
	(461)
	883

(136)

10,348

40

Equity securities available for sale:

Common stock

24

	9
	(1)
	(10)
	-
	-
	22
	-
Preferred stock	
	44
	-
	5
	-
	-

-

49

-

Total equity securities available for sale

68

9

4

(10)

-

-

71

-

Other invested assets

5,389

61

(13)

(3)

127

(94)

5,467

-

Total

$

39,353

$

626

$

690

$

(12)

$

1,432

$

(729)

$

41,360

$

40

Liabilities:

Policyholder contract deposits

$

(1,257)

$

205

$

-

$

5

$

-

$

-

$

(1,047)

$

28

Derivative liabilities, net:

Interest rate contracts	
	732
	11
	-
	13
	-
	-
	756
	3
Equity contracts	
	47
	28

-

(7)

(2)

-

66

12

Commodity contracts

1

1

-

(1)

-

-

1

	-
Credit contracts	
	(1,991)
	175
	-
	41
	-
	-
	(1,775)
	214
Other contracts	
	(162)
	7
	-

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

217

Long-term debt(c)

(344)

(80)

-

19

(2)

-

(407)

(8)

Total

$

(2,974)

$

347

$

-

$

86

$

(4)

$

-

$

(2,545)

$

237

15

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

Net

Net Realized

Investment

Capital

(in millions)	Other Income	Gains (Losses) Income	Total
Three Months Ended March 31, 2014			
Bonds available for sale	**$ 304**	**$ (36)**	**$**

13

$

281

Other bond securities

51

1

328

380

Equity securities available for sale

-

-

-

-

Other invested assets

77

(4)

6

79

Policyholder contract deposits

-

(474)

-

(474)

Derivative liabilities, net

15

(3)

75

87

Long-term debt

-

-

(3)

(3)

Three Months Ended March 31, 2013

Bonds available for sale	$	210	$	7	$	21	$	238
Other bond securities								33

-

285

318

Equity securities available for sale

-

9

-

9

Other invested assets

47

(7)

21

61

Policyholder contract deposits

	-
	205
	-
	205
Derivative liabilities, net	
	-
	22
	200
	222
Long-term debt	
	-
	-
	(80)
	(80)

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Purchases,

Sales, Issues and

(in millions)

Purchases

Sales

Settlements

Settlements, Net(a)

Three Months Ended March 31, 2014

Assets:

Bonds available for sale:

Obligations of states, municipalities and political subdivisions(b)

$

888

$

(5)

$

(37)

$

846

Non-U.S. governments

2

-

-

	2
Corporate debt	
	56
	(7)
	(45)
	4
RMBS	
	1,087
	(15)
	(515)
	557
CMBS	
	65
	(57)

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

RMBS	
	141
	(5)
	(32)
	104
CMBS	
	-
	(6)
	(85)
	(91)
CDO/ABS	
	21

	(7)
	(465)
	(451)
Total other bond securities	
	162
	(18)
	(582)
	(438)
Equity securities available for sale	
	-
	-
	-
	-
Other invested assets	
	296

	-
	(247)
	49
Total assets	
	$
	2,886
	$
	(102)
	$
	(1,806)
	$
	978
Liabilities:	
Policyholder contract deposits	
	$

	-
	$
	(12)
	$
	41
	$
	29
Derivative liabilities, net	
	1
	-
	2
	3
Long-term debt(c)	
	-
	-
	19
	19
Total liabilities	

$

1

$

(12)

$

62

$

51

Three Months Ended March 31, 2013

Assets:

Bonds available for sale:

Obligations of states, municipalities and political subdivisions	$	158	$	(22)	$	-	$	136
Non-U.S. governments		3		-		(1)		

	2
Corporate debt	
	97
	-
	(75)
	22
RMBS	
	603
	(231)
	(634)
	(262)
CMBS	
	373
	(146)
	(302)

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

Corporate debt	
	-
	-
	-
	-
RMBS	
	105
	-
	(31)
	74
CMBS	
	19
	(58)

	(60)
	(99)
CDO/ABS	
	188
	-
	(624)
	(436)
Total other bond securities	
	312
	(58)
	(715)
	(461)
Equity securities available for sale	
	1

(10)

(1)

(10)

Other invested assets

243

(30)

(216)

(3)

Total assets

$

2,588

$

(656)

$

(1,944)

$

(12)

Liabilities:

Policyholder contract deposits	$	-	$	(6)	$	11	$	5
Derivative liabilities, net		3		(4)		63		62
Long-term debt(c)								

-

-

19

19

Total liabilities

$

3

$

(10)

$

93

$

86

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

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

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

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2014 and 2013 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes $23 million of net gains and $72 million of net losses related to assets and liabilities transferred into Level 3 during the three month periods ended March 31, 2014 and 2013, respectively, and includes $23 million and $2 million of net gains related to assets and liabilities transferred out of Level 3 during the three month periods ended March 31, 2014 and 2013, respectively.

Transfers of Level 3 Assets

During the three month periods ended March 31, 2014 and 2013, transfers into Level 3 assets primarily included certain investments in private placement corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of investments in private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types. Certain investments in hedge funds were transferred into Level 3 due to these investments being carried at fair value and no longer being accounted for using the equity method of accounting, or as a result of limited market activity due to fund imposed redemption restrictions.

During the three month periods ended March 31, 2014 and 2013, transfers out of Level 3 assets primarily related to certain investments in municipal securities, private placement and other corporate debt, RMBS, CMBS, CDO/ABS, and investments in hedge funds. Transfers of certain investments in municipal securities, corporate debt, RMBS, CMBS, and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market. The transfers of certain hedge fund investments out of Level 3 assets were primarily the result of easing of certain fund-imposed redemption restrictions.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three month periods ended March 31, 2014 and 2013.

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Quantitative Information About Level 3 Fair Value Measurements

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

	Fair Value at
	March 31,
	Valuation
	Range
(in millions)	
	2014

Technique

Unobservable Input

(Weighted Average)

Assets:

Obligations of states,

$

1,138

Discounted cash flow

Yield(b)

4.44% - 5.30% (4.87%)

municipalities and

political subdivisions

Corporate debt

1,166

Discounted cash flow

Yield(b)

2.87% - 8.28% (5.57%)

RMBS

16,252

Discounted cash flow

Constant prepayment rate(a)(c)

0.00% - 10.13% (5.05%)

Loss severity(a)(c)

43.85% - 79.75% (61.80%)

Constant default rate(a)(c)

3.98% - 11.79% (7.89%)

Yield(c)

2.59% - 6.85% (4.72%)

Certain CDO/ABS

5,411

Discounted cash flow

Constant prepayment rate(a)(c)

5.30% - 13.30% (9.50%)

Loss severity(a)(c)

46.40% - 61.30% (53.90%)

Constant default rate(a)(c)

2.90% - 15.60% (8.40%)

Yield(c)

5.00% - 10.80% (8.90%)

CMBS

6,017

Discounted cash flow

Yield(b)

0.00% - 13.70% (5.09%)

CDO/ABS - Direct

Binomial Expansion

Recovery rate(b)

5.00% - 61.00% (25.00%)

Investment book

565

Technique (BET)

Diversity score(b)

6 - 29 (13.1)

Weighted average life(b)

1.30 - 10.50 years (5.30 years)

Liabilities:

Policyholder contract

deposits

765

Discounted cash flow

Equity implied volatility(b)

6.00% - 39.00%

Base lapse rate(b)

1.00% - 40.00%

Dynamic lapse rate(b)

0.20% - 60.00%

Mortality rate(b)

0.50% - 40.00%

Utilization rate(b)

0.50% - 25.00%

Total derivative

liabilities, net

909

BET

Recovery rate(b)

5.00% - 34.00% (17.00%)

Diversity score(b)

9 - 33 (14)

Weighted average life(b)

4.12 - 10.53 years (5.82 years)

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair Value at December 31, 2013	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:				

Obligations of states, municipalities and political subdivisions	$ 920	Discounted cash flow	Yield(b)	4.94% - 5.86% (5.40%)

Corporate debt	788	Discounted cash flow	Yield(b)	0.00% - 14.29% (6.64%)

RMBS

14,419

Discounted cash flow

Constant prepayment rate(a)(c)

0.00% - 10.35% (4.97%)

Loss severity(a)(c)

42.60% - 79.07% (60.84%)

Constant default rate(a)(c)

3.98% - 12.22% (8.10%)

Yield(c)

2.54% - 7.40% (4.97%)

Certain CDO/ABS	5,414	Discounted cash flow	Constant prepayment rate(a)(c)	5.20% - 10.80% (8.20%)
			Loss severity(a)(c)	48.60% - 63.40% (56.40%)
			Constant default rate(a)(c)	3.20% - 16.20% (9.00%)

Yield(c)

5.20% - 11.50% (9.40%)

CMBS

5,847

Discounted cash flow

Yield(b)

0.00% - 14.69% (5.58%)

CDO/ABS - Direct

Binomial Expansion

Recovery rate(b)

6.00% - 63.00% (25.00%)

Investment book

557

Technique (BET)

Diversity score(b)

5 - 35 (12)

Weighted average life(b)

1.07 - 9.47 years (4.86 years)

Liabilities:

Policyholder contract

deposits

312

Discounted cash flow

Equity implied volatility(b)

6.00% - 39.00%

Base lapse rate(b)

1.00% - 40.00%

Dynamic lapse rate(b)

0.20% - 60.00%

Mortality rate(b)

0.50% - 40.00%

Utilization rate(b)

0.50% - 25.00%

Total derivative

liabilities, net

996

BET

Recovery rate(b)

5.00% - 34.00% (17.00%)

Diversity score(b)

9 - 32 (13)

Weighted average life(b)

4.50 - 9.47 years (5.63 years)

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

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

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

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

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.

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following is a general description of sensitivities of significant unobservable inputs along with interrelationships between and among the significant unobservable inputs and their impact on the fair value measurements. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed below. Interrelationships may also exist between observable and unobservable inputs. Such relationships have not been included in the discussion below. For each of the individual relationships described below, the inverse relationship would also generally apply.

Obligations of States, Municipalities and Political Subdivisions

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

Corporate Debt

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

RMBS and Certain CDO/ABS

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

CMBS

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

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CDO/ABS – Direct Investment book

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

Policyholder contract deposits

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

Total derivative liabilities, net

The significant unobservable inputs used for derivative liabilities valued using the BET, which include certain credit contracts, are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non performance risk is also considered in the measurement of the liability.

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

Item 1 / NOTE 5. 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 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, 2014

December 31, 2013

Fair Value Using Net Asset Value Per Share (or its equivalent)

Fair Value Using Net Asset Value Per Share (or its equivalent)

Unfunded

Unfunded

(in millions)

Investment Category Includes

Commitments

CMBS

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

CMBS

$

2,511

$

548

$

2,544

$

578

Real Estate /
Infrastructure

Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities

424

CMBS

275

346

86

Venture capital

Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company

133

11

CMBS

140

13

Distressed

Securities of companies that are in default, under bankruptcy protection, or troubled

179

33

183

34

CMBS

Other	
Includes multi-strategy and mezzanine strategies	
	161
	225
	134
	238
Total private equity funds	
	3,408

1,092

3,347

949

Hedge funds:

Event-driven

Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations

1,197

2

CMBS

976

2

Long-short

Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk

2,026

8

1,759

11

CMBS

Macro

Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions

438

-

612

-

CMBS

Distressed	
Securities of companies that are in default, under bankruptcy protection or troubled	
	623
	14
	594
	15

CMBS

Emerging markets	
Investments in the financial markets of developing countries	
	292
	-
	287
	-

CMBS

Other	
Includes multi-strategy and relative value strategies	
	172
	-
	157
	-
Total hedge funds	
	4,748
	24
	4,385
	28
Total	
	$
	8,156
CMBS	307

$

1,116

$

7,732

$

977

Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two year increments. At March 31, 2014, assuming average original expected lives of 10 years for the funds, 79 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 16 percent between four and six years and 5 percent between seven and 10 years.

The hedge fund investments included above are generally redeemable monthly (12 percent), quarterly (47 percent), semi annually (17 percent) and annually (24 percent), with redemption notices ranging from one day to 180 days. At March 31, 2014, however, investments representing approximately 58 percent of the total fair value of the hedge fund investments cannot

Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

be redeemed, either in whole or in part, because the investments include various contractual restrictions. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre defined end dates and are generally expected to be lifted by the end of 2015. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

Fair Value Option

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

Three Months Ended March 31,	Gain (Loss)	
(in millions)	**2014**	2013
Assets:		
CMBS		

Mortgage and other loans receivable	**$ -**	$ 1
Bond and equity securities	**666**	376
Alternative investments(a)	**154**	84
Other, including Short-term investments		
CMBS		

	3
	3
Liabilities:	
Long-term debt(b)	
	(74)
	9
Other liabilities	
	(4)

		(4)
Total gain	**$ 745**	$ 469

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

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

We recognized losses of $11 million and $34 million during the three month periods ended March 31, 2014 and 2013, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	March 31, 2014
	December 31, 2013
	Outstanding

Outstanding

(in millions)

Fair Value

Principal Amount

Difference

Fair Value

Principal Amount

Difference

Liabilities:

CMBS

Long-term debt*	**$**	**6,019**	**$**	**4,656**	**$**	**1,363**	$	6,747	$	5,231	$	1,516

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

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

Impairment Charges

Non-Recurring Basis

Three Months Ended March 31,

(in millions)

CMBS

Level 1

Level 2

Level 3

Total

2014

2013

March 31, 2014

CMBS

Other investments

$

-

$

-

$

1,510

$

1,510

$

35

$

36

Investments in life settlements

-

-

CMBS

	270
	270
	42
	43
Other assets	
	-
	-
	1
	1
	1
	31
Total	
CMBS	318

$

-

$

-

$

1,781

$

1,781

$

78

$

110

December 31, 2013

CMBS

Other investments

$

-

$

-

$

1,615

$

1,615

Investments in life settlements

-

CMBS

	-
	896
	896
Other assets	
	-
	11
	48
	59
CMBS	

Total	
	$
	-
	$
	11
	$
	2,559
	$
	2,570

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

	Estimated Fair Value	
		Carrying
(in millions)		

	Level 1	Level 2	Level 3	Total Value
March 31, 2014				
Assets:				
CMBS				

Mortgage and other loans receivable	$	-	$	171	$	22,329	$	22,500	$	21,569
Other invested assets		-		573		2,727		3,300		

CMBS

	4,245
Short-term investments	
	-
	13,905
	-
	13,905
	13,905
Cash	
	2,490
	-
	-
	2,490
	2,490
Liabilities:	
CMBS	

Policyholder contract deposits associated

with investment-type contracts

-

198

	115,467
	115,665
	105,229
Other liabilities	
	-
	3,418
	-
	3,418
	3,418
Long-term debt	
	-
	34,510
	3,182
	37,692

33,489

December 31, 2013

Assets:

Mortgage and other loans receivable

	$
	-
CMBS	328

	$
	219
	$
	21,418
	$
	21,637
	$
	20,765
Other invested assets	
	-
	529
	2,705
	3,234
	4,194
Short-term investments	
	-
	15,304
	-

	15,304
	15,304
Cash	
	2,241
	-
	-
	2,241
	2,241
Liabilities:	

Policyholder contract deposits associated with investment-type contracts	
	-
	199
	114,361
	114,560
	105,093
Other liabilities	
	-

	4,869
	1
	4,870
	4,869
Long-term debt	
	-
	36,239
	2,394
	38,633
	34,946

25

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:

Other-Than-

Amortized

	Gross
	Gross
	Temporary
	Cost or
	Unrealized
	Unrealized
	Fair
	Impairments
(in millions)	
	Cost
	Gains
	Losses

CMBS

Value

in AOCI(a)

March 31, 2014

Bonds available for sale:

U.S. government and government sponsored entities

CMBS

	$
	2,779
	$
	170
	$
	(27)
	$
	2,922
	$
	-
Obligations of states, municipalities and political subdivisions	
	29,402
	1,384
	(197)
	30,589
	(15)
Non-U.S. governments	
	21,317
	826

	(259)
	21,884
	-
Corporate debt	
	139,063
	9,505
	(1,577)
	146,991
	81
Mortgage-backed, asset-backed and collateralized:	

CMBS

RMBS	
	34,340
	3,354
	(390)
	37,304
	1,779
CMBS	
	11,661
	637
	(203)
	12,095
	168
CDO/ABS	

	10,638
	649
	(135)
	11,152
	40
Total mortgage-backed, asset-backed and collateralized	
	56,639
	4,640
	(728)
	60,551
	1,987
Total bonds available for sale(b)	
	249,200
	16,525

CMBS

	(2,788)
	262,937
	2,053
Equity securities available for sale:	
Common stock	
	1,287
	1,806
	(14)
	3,079

	-
Preferred stock	
	25
	4
	(1)
	28
	-
Mutual funds	
	764
	22
	(15)
	771
	-
Total equity securities available for sale	
	2,076

1,832

(30)

3,878

-

Total

$

251,276

$

18,357

$

(2,818)

$

266,815

$

2,053

December 31, 2013

CMBS

Bonds available for sale:

U.S. government and government sponsored entities

$

3,084

$

150

$

(39)

$

3,195

$

-

CMBS

Obligations of states, municipalities and political subdivisions	
	28,704
	1,122
	(446)
	29,380
	(15)
Non-U.S. governments	
	22,045
	822
	(358)
	22,509
	-
Corporate debt	
	139,461

	7,989
	(2,898)
	144,552
	74
Mortgage-backed, asset-backed and collateralized:	
RMBS	
	33,520
	3,101
	(473)
CMBS	

	36,148
	1,670
CMBS	
	11,216
	558
	(292)
	11,482
	125
CDO/ABS	
	10,501
	649
	(142)
	11,008
	62
Total mortgage-backed, asset-backed and collateralized	

	55,237
	4,308
	(907)
	58,638
	1,857
Total bonds available for sale(b)	
	248,531
	14,391
	(4,648)
	258,274
	1,916
Equity securities available for sale:	

Common stock	
	1,280
	1,953
	(14)
	3,219
	-
Preferred stock	
	24
	4
	(1)
	27
CMBS	348

	-
Mutual funds	
	422
	12
	(24)
	410
	-
Total equity securities available for sale	
	1,726
	1,969
	(39)
	3,656
	-
Total	
	$
CMBS	349

250,257

$

16,360

$

(4,687)

$

261,930

$

1,916

(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.

(b) At March 31, 2014 and December 31, 2013, bonds available for sale held by us that were below investment grade or not rated totaled $34.1 billion and $32.6 billion, respectively.

Item 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Gross

Gross

CMBS

Gross

Fair

Unrealized

Fair

Unrealized

Fair

Unrealized

(in millions)

Value

Losses

CMBS

Value

Losses

Value

Losses

March 31, 2014

Bonds available for sale:

CMBS

U.S. government and government sponsored entities	
	$
	683
	$
	21
	$
	75
	$
	6
	$
	758
CMBS	

$	**27**
Obligations of states, municipalities and political subdivisions	**3,806**
	131
	562

CMBS

	66
	4,368
	197
Non-U.S. governments	
	4,049
	144
	796
	115
	4,845
	259
Corporate debt	
	25,341
	938

CMBS

	6,649
	639
	31,990
	1,577
RMBS	
	8,100
	283
	1,391
	107
	9,491
	390
CMBS	

2,447

115

1,115

88

3,562

203

CDO/ABS

2,426

56

1,096

79

CMBS

	3,522
	135
Total bonds available for sale	
	46,852
	1,688
	11,684
	1,100
	58,536
	2,788
Equity securities available for sale:	

Common stock

	102
	14
	-
	-
	102
	14

Preferred stock

	4

1

-

-

4

1

Mutual funds

317

15

-

-

317

15

Total equity securities available for sale	**423**
	30
	-
	-
	423
	30
Total	**$**
	47,275
	$
	1,718
	$
	11,684
	$
	1,100

CMBS

$

58,959

$

2,818

December 31, 2013

Bonds available for sale:

CMBS

U.S. government and government sponsored entities

$

1,101

$

34

$

42

$

5

$

1,143

$

39

Obligations of states, municipalities and political

subdivisions	
	6,134
	379
	376
	67
	6,510
CMBS	

	446
Non-U.S. governments	
	4,102
	217
	710
	141
	4,812
	358
Corporate debt	
	38,495
	2,251
	4,926
	647
CMBS	

	43,421
	2,898
RMBS	
	8,543
	349
	1,217
	124
	9,760
	473
CMBS	
	3,191
	176

	1,215
	116
	4,406
	292
CDO/ABS	
	2,845
	62
	915
	80
	3,760
	142
Total bonds available for sale	
CMBS	

	64,411
	3,468
	9,401
	1,180
	73,812
	4,648
Equity securities available for sale:	

Common stock	
	96
	14
	-
	-
	96
	14
Preferred stock	
	5
	1
	-
CMBS	

	-
	5
	1
Mutual funds	
	369
	24
	-
	-
	369
	24
Total equity securities available for sale	
	470
	39
CMBS	371

-

-

470

39

Total

$

64,881

$

3,507

$

9,401

$

1,180

$

74,282

$

4,687

CMBS

At March 31, 2014, we held 6,426 and 126 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,008 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, 2014 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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:

	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale
March 31, 2014 *(in millions)*	Amortized Cost	Fair Value	Amortized Cost
CMBS			

	Fair Value
Due in one year or less	
	$
	10,275
	$
	10,455
	$
	830
	$
	817
Due after one year through five years	
	50,565
	53,380
	6,918
	6,799
Due after five years through ten years	
	68,663
	71,911

	15,703
	15,099
Due after ten years	
	63,058
	66,640
	20,570
	19,246
Mortgage-backed, asset-backed and collateralized	
	56,639
	60,551
	17,303
	16,575
Total	
CMBS	

$	249,200
$	262,937
$	61,324
$	58,536

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:

2014	2013

Gross

Gross

Gross

Gross

Three Months Ended March 31,

Realized

Realized

Realized

Realized

(in millions)

Gains

Losses

CMBS

	Gains
	Losses
Fixed maturity securities	
	$
	216
	$
	31
	$
	371
	$
	71
Equity securities	
	30
	2
CMBS	379

	37
	3
Total	
	$
	246
	$
	33
	$
	408
	$
	74

For the first quarters of 2014 and 2013, the aggregate fair value of available for sale securities sold was $6.1 billion and $7.0 billion, respectively, which resulted in net realized capital gains of $0.2 billion and $0.3 billion, respectively.

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, 2014

	December 31, 2013	
	Fair	Percent
	Fair	Percent
(in millions)	Value	of Total
	Value	of Total
Fixed maturity securities:		
CMBS		

U.S. government and government sponsored entities

$

5,394

24

%

$

5,723

24

%

Obligations of states, municipalities and political subdivisions

122

1

CMBS

	121
	1
Non-U.S. governments	
	2
	-
	2
	-
Corporate debt	
	1,108
	5
	1,169
	5
Mortgage-backed, asset-backed and collateralized:	

RMBS	
	2,351
	10
	2,263
	10
CMBS	
	1,278
	6
	1,353
	6

CMBS

CDO/ABS and other collateralized*	**11,456**	**51**
	11,985	51
Total mortgage-backed, asset-backed and collateralized	**15,085**	**67**
	15,601	67
Other	**7**	**-**

CMBS

	7
	-
Total fixed maturity securities	
	21,718
	97
	22,623
	97
Equity securities	
	725
	3
	834
	3
Total	

CMBS

$

22,443

100

%

$

23,457

100

%

* Includes $1.0 billion of U.S. Government agency backed ABS at both March 31, 2014 and December 31, 2013.

Item 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Net Investment Income

The following table presents the components of Net investment income:

Three Months Ended March 31,	
(in millions)	
	2014
	2013
Fixed maturity securities, including short-term investments	
CMBS	

	$ 3,131	$ 3,045
Equity securities	**(85)**	37
Interest on mortgage and other loans	**318**	280
Alternative investments*	**925**	866
Real estate		
CMBS		389

	28	31
Other investments	**11**	53
Total investment income	**4,328**	4,312
Investment expenses	**132**	

CMBS

	148
Net investment income	**$ 4,196** | $ 4,164

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

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)

	2014	2013
Sales of fixed maturity securities	$ 185	$ 300
Sales of equity securities		
CMBS		

	28
	34
Other-than-temporary impairments:	
Severity	
CMBS	

-

(2)

Change in intent

(5)

(3)

Foreign currency declines

CMBS

	(4)
	-
Issuer-specific credit events	
	(68)
	(63)
Adverse projected cash flows	

CMBS

	(1)
	(6)
Provision for loan losses	
	5
	(3)
Foreign exchange transactions	
	26

	329
Derivative instruments	**(350)**
	(271)
Impairments on investments in life settlements	**(42)**
	(43)
Other	
CMBS	397

	13	28
Net realized capital gains (losses)	**$ (213)**	$ 300

Change in Unrealized Appreciation (Depreciation) of Investments

CMBS

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)	**2014**	2013
Increase (decrease) in unrealized appreciation (depreciation) of investments:		
CMBS		

Fixed maturity securities	**$ 3,994** $ (1,152)
Equity securities	**(128)** 7

Other investments	**73**	(48)
Total increase (decrease) in unrealized appreciation (depreciation) of investments*	**$ 3,939**	$ (1,193)

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

Item 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Evaluating Investments for Other-Than-Temporary Impairments

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

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)

2014

CMBS

	2013	
Balance, beginning of year	**$ 3,872**	$ 5,164
Increases due to:		
Credit impairments on new securities subject to impairment losses	**8**	17
Additional credit impairments on previously impaired securities		

36

18

Reductions due to:

Credit impaired securities fully disposed for which there was no

prior intent or requirement to sell

(330)

(391)

Accretion on securities previously impaired due to credit*

	(188)	(205)
Other	**(9)**	-
Balance, end of period	**$ 3,389**	$ 4,603

* 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.

30

Item 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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)	$ 27,484
Cash flows expected to be collected*	21,919
Recorded investment in acquired securities	14,437

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

(in millions)

	March 31, 2014	December 31, 2013
Outstanding principal balance	**$ 15,923**	

	$ 14,741
Amortized cost	**11,235**
	10,110
Fair value	**12,547**
	11,338

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

Three Months Ended March 31,		
(in millions)	**2014**	2013
Balance, beginning of period	**$ 6,940**	

	$ 4,766
Newly purchased PCI securities	**522**
	345
Disposals	**-**
	(60)
Accretion	**(212)**
	(160)
Effect of changes in interest rate indices	**(59)**
	84
Net reclassification from non-accretable difference,	

including effects of prepayments

(21)

139

Balance, end of period

$

7,170

$

5,114

Pledged Investments

Secured Financing and Similar Arrangements

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

Secured financing transactions also include securities sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. In the majority of these repurchase agreements, the securities transferred by us may be sold or repledged by the counterparties. Repurchase agreements entered into by 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, 2014**		December 31, 2013	
Securities available for sale	**$**	**2,402**	$	3,907
Other securities		**2,722**		2,766

We also enter into agreements in which securities are purchased by us under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. These agreements are recorded at their contracted resale amounts plus accrued interest,

Item 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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, 2014	December 31, 2013
Securities collateral pledged to us	**$ 8,166**	$ 8,878
Amount repledged by us	**66**	71

Insurance - Statutory and Other Deposits

CMBS

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 $6.7 billion at both March 31, 2014 and December 31, 2013.

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 $53 million and $57 million of stock in FHLBs at March 31, 2014 and December 31, 2013, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $529 million and $80 million at March 31, 2014 and December 31, 2013, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations approximated $3.8 billion and $4.2 billion at March 31, 2014 and December 31, 2013, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

7. LENDING ACTIVITIES

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

(in millions)	**March 31, 2014**	December 31, 2013
Commercial mortgages*		
CMBS		

	$ 16,672	$ 16,195
Life insurance policy loans	**2,777**	2,830
Commercial loans, other loans and notes receivable	**2,419**	2,052
Total mortgage and other loans receivable	**21,868**	21,077
Allowance for losses	**(299)**	(312)
Mortgage and other loans receivable, net	**$**	
CMBS		

21,569

$

20,765

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

CMBS

Item 1 / NOTE 7. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Number

Percent

CMBS

of

Class

of

(dollars in millions)

Loans

Apartments

Offices

Retail

Industrial

Hotel

Others

Total(c)

Total $

March 31, 2014

CMBS

Credit Quality Indicator:

In good standing

977

$

2,798

$

4,643

$

3,551

$

1,735

$

1,462

$

2,000

$

16,189

97

%

Restructured(a)

10

54

283

7

-

-

85

429

3

90 days or less delinquent

3

-

11

5

-

-

-

16

-

>90 days delinquent or in

process of foreclosure

	5
	-
	38
	-
	-
	-
	-
	38

CMBS

	-
Total(b)	**995**
	$
	2,852
	$
	4,975
	$
	3,563
	$
	1,735
	$
	1,462
	$
	2,085
	$
	16,672
	100
	%
Valuation allowance	
	$
	11

$
114
$
8
$
20
$
3
$
44
$
200
1
%

December 31, 2013

Credit Quality Indicator:

In good standing	978
	$
	2,786
	$
	4,636
	$
	3,364
	$
	1,607
	$
	1,431
	$
	1,970
	$
	15,794
	98
	%
Restructured(a)	9
	53
	210

	6
	-
	-
	85
	354
	2
90 days or less delinquent	
	2
	-
	-
	5
	-
	-

-

5

-

>90 days delinquent or in

process of foreclosure

6

CMBS

	-
	42
	-
	-
	-
	-
	42
	-
Total(b)	
	995
	$
	2,839
	$
	4,888
	$
	3,375
CMBS	

$

1,607

$

1,431

$

2,055

$

16,195

100

%

Allowance for losses

$

10

$

109

$

9

$

19

$

3

$

51

$

CMBS

201

1

%

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

(b) Does not reflect valuation allowances.

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

Allowance for Loan Losses

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

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

2014

2013

Three Months Ended March 31,

Commercial

Other

Commercial

Other

(in millions)

Mortgages

Loans

CMBS

	Total
	Mortgages
	Loans
	Total
Allowance, beginning of year	
	$
	201
	$
	111
	$
	312
	$
	159
	$
	246
CMBS	434

	$
	405
Loans charged off	
	-
	-
	-
	(1)
	(22)
	(23)
Recoveries of loans previously charged off	

-

-

-

-

1

1

Net charge-offs

-

-

CMBS

	-
	(1)
	(21)
	(22)
Provision for loan losses	
	(1)
	(12)
	(13)
	7
CMBS	

(4)

3

Other

-

-

-

-

(1)

(1)

Activity of discontinued operations

-

-

-

-

-

-

Allowance, end of period

$

200*

CMBS

$

99

$

299

$

165*

$

220

$

385

* Of the total allowance at the end of the period, $98 million and $53 million relates to individually assessed credit losses on $281 million and $208 million of commercial mortgage loans at March 31, 2014 and 2013, respectively.

No significant loans were modified in a troubled debt restructuring during the first quarters of 2014 and 2013.

8. VARIABLE INTEREST ENTITIES

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business and consolidate the VIEs when we determine we are the primary beneficiary. This analysis includes a review of the VIE's capital structure, Item 1 / NOTE 8. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued and our involvement with the entity. When assessing the need to consolidate a VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

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

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

Balance Sheet Classification and Exposure to Loss

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

(in millions)

Real Estate and Investment Funds(c)
Securitization Vehicles
Structured Investment Vehicles
Affordable Housing Partnerships

CMBS

Other

Total

March 31, 2014

Assets:

CMBS

Bonds available for sale	
	$
	-
	$
	11,362
	$
	-
	$
	-
	$
	57
	$
	11,419
Other bond securities	
	-
	8,002
	731
	-

	113
	8,846
Mortgage and other loans receivable	
	-
	1,731
	-
	-
	182
	1,913
Other invested assets	
	654
	-
	-
	1,941

761

3,356

Other assets

48

800

111

45

614

1,618

Total assets(a)(b)

$

702

$

21,895

$

842

$

1,986

CMBS

	$
	1,727
	$
	27,152
Liabilities:	
Long-term debt	
	$
	70
	$
	1,265
	$
	98
	$
	224
CMBS	446

	$
	136
	$
	1,793
Other liabilities	
	37
	295
	1
	87
	221
	641
Total liabilities	
	$
	107
	$
	1,560
	$
	99
	$
	311
CMBS	

$

357

$

2,434

December 31, 2013

Assets:

CMBS

Bonds available for sale

$

-

$

11,028

$

-

$

-

$

70

$

11,098

Other bond securities

-

7,449

748

-

CMBS

	113
	8,310
Mortgage and other loans receivable	
	-
	1,508
	-
	-
	189
	1,697
Other invested assets	
	849
	-
	-
	1,986

	793
	3,628
Other assets	
	49
	481
	93
	41
	615
	1,279
Total assets(a)(b)	
	$
	898
	$
	20,466
	$
	841
	$
	2,027
CMBS	451

$

1,780

$

26,012

Liabilities:

Long-term debt

$

71

$

494

$

87

$

188

CMBS 452

$

154

$

994

Other liabilities

31

74

-

83

367

555

Total liabilities

$

102

$

568

$

87

$

271

CMBS 453

$

521

$

1,549

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

(b) At March 31, 2014 and December 31, 2013, includes approximately $21.8 billion and $21.4 billion, respectively, of investment-grade debt securities, loans and other assets held by certain securitization vehicles that issued beneficial interests in these investments. The majority of the beneficial interests issued are held by AIG.

(c) At both March 31, 2014 and December 31, 2013, off-balance sheet exposure, primarily consisting of commitments to real estate and investment funds, was $50.8 million.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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)		
CMBS		

Assets

Sheet*

Sheet

Total

March 31, 2014

Real estate and investment funds

$

18,334

$

2,446

$

369

CMBS

	$
	2,815
Affordable housing partnerships	
	478
	478
	-
	478
Other	
	609
	29
	-
	29
Total	
	$
	19,421
CMBS	457

	$ 2,953	**$ 369**	**$ 3,322**
December 31, 2013			
Real estate and investment funds	$ 17,572		
	$ 2,343	$ 289	$ 2,632
CMBS	458		

Affordable housing partnerships	
	478
	477
	-
	477
Other	
	708
	37
	-
	37
Total	
	$
	18,758
	$
	2,857
CMBS	459

$

289

$

3,146

* At March 31, 2014 and December 31, 2013, $2.9 billion and $2.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

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

9. DERIVATIVES AND HEDGE ACCOUNTING

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

The following table presents the notional amounts and fair values of our derivative instruments:

March 31, 2014

December 31, 2013

Gross Derivative Assets

Gross Derivative Liabilities

Gross Derivative Assets

Gross Derivative Liabilities

	Notional
	Fair
	Notional
	Fair
	Notional
	Fair
	Notional
	Fair
(in millions)	
	Amount
	Value(a)
CMBS	

Amount

Value(a)

Amount

Value(a)

Amount

Value(a)

Derivatives designated as

hedging instruments:

Interest rate contracts(b)

$

-

$

-

$

114

$

13

$

-

$

-

$

112

$

15

Foreign exchange contracts

210

CMBS

	2
	1,752
	153
	-
	-
	1,857
	190
Equity contracts(c)	
	80
	4
	25
	-
CMBS	465

-

-

-

-

Derivatives not designated

CMBS

as hedging instruments:

Interest rate contracts(b)

CMBS

	54,735
	3,797
	58,374
	4,399
	50,897
	3,771
	59,585
	3,849
Foreign exchange contracts	
	2,091
	35
	3,840

	101
	1,774
	52
	3,789
	129
Equity contracts(c)	
	4,106
	203
	32,531
	875
	29,296
CMBS	

413

9,840

524

Commodity contracts

17

1

13

4

17

1

13

5

CMBS

Credit contracts	
	60
	41
	15,252
	1,226
	70
	55
	15,459
	1,335
Other contracts(d)	
	33,396
	36
CMBS	471

1,325

171

32,440

34

1,408

167

Total derivatives not

CMBS

designated as hedging

instruments

94,405

4,113

111,335

6,776

114,494

4,326

90,094

6,009

Total derivatives, gross

$

94,695

$

CMBS 474

4,119
$
113,226
$
6,942
$
114,494
$
4,326
$
92,063
$
6,214

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

(b) Includes cross-currency swaps.

(c) Notional amount of derivative assets and fair value of derivative assets were both zero at March 31, 2014 and were $23.2 billion and $107 million at December 31, 2013, respectively, related to bifurcated embedded derivatives. Notional amount of derivative liabilities and fair value of derivative liabilities

Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

include $32 billion and $782 million, respectively, at March 31, 2014, and $6.7 billion and $424 million, respectively, at December 31, 2013, related to bifurcated embedded derivatives. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets.

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

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

March 31, 2014

December 31, 2013

Derivative Assets

Derivative Liabilities

Derivative Assets

Derivative Liabilities

Notional

Fair

Notional

Fair

Notional

Fair

Notional

Fair

(in millions)

Amount

Value

Amount

Value

CMBS

Amount

Value

Amount

Value

Global Capital Markets derivatives:

AIG Financial Products	**$**	**41,629**	**$**	**2,470**	**$**	**52,643**	**$**	**3,850**
	$	41,942	$	2,567	$	52,679	$	3,506

AIG Markets

	14,986
	1,016
	19,263
	1,499
	12,531
	964
	23,716
	1,506
Total Global Capital Markets derivatives	
	56,615
	3,486
	71,906

5,349

54,473

3,531

76,395

5,012

Non-Global Capital Markets derivatives(a)

38,080

633

41,320

1,593

60,021

CMBS

795

15,668

1,202

Total derivatives, gross

$

94,695

4,119

$

113,226

6,942

$

114,494

4,326

$

92,063

6,214

CMBS

Counterparty netting(b)	
	(1,680)
	(1,680)
	(1,734)
	(1,734)
Cash collateral(c)	
	(838)

CMBS

	(1,375)
	(820)
	(1,484)
Total derivatives, net	
	1,601
	3,887

CMBS

	1,772
	2,996
Less: Bifurcated embedded derivatives	
	-
	848
	107
CMBS	

	485
Total derivatives on consolidated balance sheet	$
CMBS	486

1,601

$

3,039

$

1,665

$

2,511

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

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

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

Collateral

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

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

Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Offsetting

We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Condensed Consolidated Balance Sheets when a legally enforceable ISDA Master Agreement exists between us and our derivative counterparty. An ISDA Master Agreement is an agreement between two counterparties, governing multiple derivative transactions between the two counterparties. The ISDA Master Agreement generally provides for the net settlement of all, or a specified group, of these derivative transactions, as well as cash collateral, through a single payment, and in a single currency, as applicable. The net settlement provisions apply in the event of a default on, or affecting any, one derivative transaction or a termination event affecting all, or a specified group of, derivative transactions governed by the ISDA Master Agreement.

Hedge Accounting

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

We use foreign currency denominated debt and cross currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non U.S. dollar functional currency foreign subsidiaries. We assess the hedge effectiveness and measure the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. For the three month periods ended March 31, 2014 and 2013, we recognized gains of $3 million and $130 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

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

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

Three Months Ended March 31,

(in millions)	**2014**	2013
Interest rate contracts:		
Gain recognized in earnings on derivatives(b)	**$ 2**	$

	-
Gain recognized in earnings on hedged items(c)	
	65
	30
Foreign exchange contracts:(d)	
Gain (loss) recognized in earnings on derivatives	
	24
	(5)
Gain (loss) recognized in earnings on hedged items	
CMBS	

(32)

4

Loss recognized in earnings for amounts excluded from effectiveness testing

(8)

(1)

(a) Excludes immaterial amounts related to equity forwards used to hedge the change in fair value of available-for-sale common stock.

(b) Includes gains of $1 million recorded in Interest credited to policyholder account balances and $1 million recorded in Net realized capital gains (losses) for the three month period ending March 31, 2014.

(c) Includes gains of $18 million and $30 million for the three month periods ended March 31, 2014 and 2013, respectively, representing the amortization of debt basis adjustment recorded in Other income and Net realized capital gains (losses) following the discontinuation of hedge accounting. Also includes gains of $50 million for the three month period ended March 31, 2014, recorded in Loss on extinguishment of debt, representing the release of debt basis following the repurchase of issued debt that was part of previously discontinued hedge accounting relationships.

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

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Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivatives Not Designated as Hedging Instruments

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

	Gains (Losses)	
Three Months Ended March 31,	Recognized in Earnings	
(in millions)	**2014**	2013
By Derivative Type:		
CMBS		

Interest rate contracts(a)	**$ 139**	$ (216)
Foreign exchange contracts	**(14)**	155
Equity contracts(b)	**(422)**	44

Commodity contracts	**1**	-
Credit contracts	**80**	175
Other contracts	**15**	44
Total	**$ (201)**	

	$ 202
By Classification:	
Policy fees	**$ 68** $ 45
Net investment income	**14** 24
Net realized capital losses	

CMBS

(337)

(276)

Other income

49

412

Policyholder benefits and claims incurred

5

(3)

Total

$

(201)

$

202

(a) Includes cross currency swaps.

CMBS

(b) Includes embedded derivative gains (losses) of $(389) million and $256 million for the three month periods ended March 31, 2014 and 2013, respectively.

Global Capital Markets Derivatives

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

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

Super Senior Credit Default Swaps

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

Item 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Fair Value of

Unrealized Market Valuation

Net Notional Amount at

Derivative Liability at

Three Months Ended

March 31,

CMBS

	December 31,
	March 31,
	December 31,
	March 31,
	March 31,
(in millions)	
	2014
	2013
	2014
	2013
	2014
	2013
Arbitrage:	
CMBS	500

Multi-sector CDOs(a)	
	3,166
	3,257
	1,151
	1,249

CMBS

	72
	155
Corporate debt/CLOs(b)	
	11,821
	11,832
	25
	28
	3
	16
Total	
	$
	14,987
	$
	15,089
	$
	1,176
CMBS	

$

1,277

$

75

$

171

(a) During the three month period ended March 31, 2014, we paid $26 million to counterparties with respect to multi sector CDOs, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss. Collateral postings with regards to multi sector CDOs were $1.0 billion and $1.1 billion at March 31, 2014 and December 31, 2013, respectively.

(b) Corporate debt/Collateralized Loan Obligations (CLOs) include $1.0 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at both March 31, 2014 and December 31, 2013. Collateral postings with regards to corporate debt/CLOs were $352 million and $353 million at March 31, 2014 and December 31, 2013, respectively.

The expected weighted average maturity of the super senior credit derivative portfolios as of March 31, 2014 was six years for the multi sector CDO arbitrage portfolio and two years for the corporate debt/CLO portfolio.

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

Written Single Name Credit Default Swaps

We have legacy credit default swap contracts referencing single name exposures written on corporate, index and asset backed credits with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy to earn the net spread between CDSs written and purchased. At March 31, 2014 and December 31, 2013, the net notional amounts of these written CDS contracts were $302 million and $373 million, respectively, including ABS CDS transactions purchased from a liquidated multi sector super senior CDS transaction. These exposures were partially hedged by purchasing offsetting CDS contracts of $50 million in net notional amounts at both March 31, 2014 and December 31, 2013. The net unhedged positions of $252 million and $323 million at March 31, 2014 and December 31, 2013, respectively, represent the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts was three years at both March 31, 2014 and December 31, 2013. At March 31, 2014 and December 31, 2013, the fair values of derivative liabilities (which represents the carrying value) of the portfolio of CDS were $29 million and $32 million, respectively.

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

These CDS contracts were written under ISDA Master Agreements. The majority of these ISDA Master Agreements include credit support annexes (CSAs) that provide for collateral postings that may vary at various ratings and threshold levels. At March 31, 2014 and December 31, 2013, net collateral posted by us under these contracts was $34 million and $38 million, respectively, prior to offsets for other transactions.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

All Other Derivatives

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

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

Credit Risk-Related Contingent Features

The aggregate fair value of our derivative instruments that contain credit risk related contingent features that were in a net liability position at March 31, 2014 and December 31, 2013, was approximately $2.9 billion and $2.6 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2014 and December 31, 2013, was $3.0 billion and $3.1 billion, respectively.

We estimate that at March 31, 2014, based on our outstanding financial derivative transactions, a one notch downgrade of our long term senior debt ratings to BBB+ by Standard & Poor’s Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one notch downgrade to Baa2 by Moody’s Investors’ Service, Inc. (Moody’s) and an additional one notch downgrade to BBB by S&P would result in approximately $61 million in additional collateral postings and termination payments, and a further one notch downgrade to Baa3 by Moody’s and BBB by S&P would result in approximately $139 million in additional collateral postings and termination payments.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of March 31, 2014. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could significantly differ from our estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

Hybrid Securities with Embedded Credit Derivatives

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

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Consolidated Balance Sheets. The fair values of these hybrid securities were $6.3 billion and $6.4 billion at March 31, 2014 and December 31, 2013, respectively. These securities have par amounts of

$13.1 billion and $13.4 billion at March 31, 2014 and December 31, 2013, respectively, and have remaining stated maturity dates that extend to 2052.

10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

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

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

Legal Contingencies

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

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

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

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

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

On May 19, 2009, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG Common Stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG Common Stock. The alleged

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false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010, the Court denied the motions to dismiss.

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

On January 30, 2014, the Court stayed proceedings in the Consolidated 2008 Securities Litigation pending a decision in *Halliburton Co. v. Erica P. John Fund, Inc.*, No. 13 317 (U.S. Nov. 15, 2013) (Halliburton II), in which the U.S. Supreme Court will consider the validity of, and what is needed to invoke or rebut, the fraud on the market presumption of reliance currently applicable to the certification of classes of claims under Section 10(b) of the Exchange Act. We have accrued our current estimate of probable loss with respect to this litigation.

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

We have accrued our current estimate of probable loss with respect to these litigations.

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

On November 20, 2012, defendants filed motions to dismiss the second consolidated amended complaint. As of May 5, 2014, discovery is ongoing, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

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

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

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of $500 million and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of May 5, 2014, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim, no merits discovery has occurred and the action has been stayed. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Starr International Litigation

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

On November 21, 2011, SICO also filed a second complaint in the Southern District of New York against the FRBNY bringing claims, both individually and on behalf of all others similarly situated and derivatively on behalf of AIG (the SICO New York Action). This complaint also challenges the government's assistance of AIG, pursuant to which AIG entered into the FRBNY Credit Facility and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the FRBNY owed fiduciary duties to AIG as our controlling shareholder, and that the FRBNY breached these fiduciary duties by "divert[ing] the rights and assets of AIG and its shareholders to itself and favored third parties" through transactions involving Maiden Lane III LLC (ML III), an entity controlled by the FRBNY, and by "participating in, and causing AIG's officers and directors to participate in, the evasion of AIG's existing Common Stock shareholders' right to approve the massive issuance of the new Common Shares required to complete the government's taking of a nearly 80 percent interest in the Common Stock of AIG." SICO also alleges that the "FRBNY has asserted that in exercising its control over, and acting on behalf of, AIG it did not act in an official, governmental capacity or at the direction of the Department of Treasury," but that "[t]o the extent the proof at or prior to trial shows that the FRBNY did in fact act in a governmental capacity, or at the direction of the Department of Treasury, the improper conduct . . . constitutes the discriminatory takings of the property and property rights of AIG without due process or just compensation."

On January 31, 2012 and February 1, 2012, amended complaints were filed in the Court of Federal Claims and the Southern District of New York, respectively.

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

On November 19, 2012, the Southern District of New York granted the FRBNY's motion to dismiss the SICO New York Action, and on January 29, 2014, the Second Circuit affirmed the Southern District of New York's dismissal of the SICO New York Action. On April 29, 2014, SICO filed a Petition for Writ of Certiorari, seeking review of the Second Circuit's order by the Supreme Court of the United States.

In both of the actions commenced by SICO, the only claims naming AIG as a party (as a nominal defendant) are derivative claims on behalf of AIG. On September 21, 2012, SICO made a pre litigation demand on our Board demanding that we pursue the derivative claims in both actions or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board

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unanimously refused SICO's demand in its entirety and on January 23, 2013, counsel for the Board sent a letter to counsel for SICO describing the process by which our Board considered and refused SICO's demand and stating the reasons for our Board's determination.

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

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

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

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

The FRBNY has also requested indemnification in connection with the SICO New York Action from AIG under the FRBNY Credit Facility and from ML III under the Master Investment and Credit Agreement and the Amended and Restated Limited Liability Company Agreement of ML III.

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

False Claims Act Complaint

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a first amended complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The first amended complaint alleged that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and Maiden Lane II LLC (ML II) and ML III entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG’s ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The first amended complaint sought unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys’ fees, costs and expenses. The complaint and the first amended complaint were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the first amended complaint on AIG on July 11, 2011. On April 19, 2013, the Court granted AIG’s motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempted to plead the same claims as the prior complaints and did not specify an amount of alleged damages. AIG and its co-defendants filed motions to dismiss the second amended complaint on August 9, 2013. On March 29, 2014, the Court dismissed the second amended complaint with prejudice. On April 30, 2014, the Relators filed a Notice of Appeal to the Ninth Circuit. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Litigation Matters Relating to AIG's Insurance Operations

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

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

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

Regulatory and Related Matters

Our life insurance companies have received and responded to industry wide regulatory inquiries, including a multi state audit and market conduct examination covering compliance with unclaimed property laws and a directive from the New York Insurance Department regarding claims settlement practices and other related state regulatory inquiries. The inquiries concern the use of the Social Security Death Master File (SSDMF) to identify potential claims not yet presented to us in the normal course of business. In connection with the resolution of the multi state examination relating to these matters in the third quarter of 2012, we paid an $11 million regulatory assessment to the various state insurance departments that are parties to the regulatory settlement to defray costs of their examinations and monitoring. Although we have enhanced our claims practices to include use of the SSDMF, it is possible that the settlement remediation requirements, remaining inquiries, other regulatory activity or litigation could result in the payment of additional amounts. AIG has also received a demand letter from a purported AIG shareholder requesting that the Board of Directors investigate these matters, and bring appropriate legal proceedings against any person identified by the investigation as engaging in misconduct. On January 8, 2014, the independent members of our Board unanimously refused the demand in its entirety, and on February 19, 2014, counsel for the Board sent a letter to counsel for the purported AIG shareholder describing the process by which our Board considered and refused its demand. AIG believes it has adequately reserved for such claims, but there can be no assurance that the ultimate cost will not vary, perhaps materially, from its estimate.

In connection with a multi state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), AIG Property Casualty Inc. (formerly Chartis Inc.), on behalf of itself, National Union, and certain of AIG Property Casualty Inc.'s insurance and non insurance companies (collectively, the AIG PC parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions

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

Industry wide examinations conducted by the Minnesota Department of Insurance and the Department of Housing and Urban Development (HUD) on captive reinsurance practices by lenders and mortgage insurance companies, including UGC, have been ongoing for several years. In 2011, the Consumer Financial Protection Bureau (CFPB) assumed responsibility for violations of the Real Estate Settlement Procedures Act from HUD, and assumed HUD's aforementioned ongoing investigation. UGC and the CFPB reached a settlement, entered on April 8, 2013 by the United States District Court for the Southern District of Florida, where UGC consented to discontinue its remaining captive reinsurance practices and to pay a civil monetary penalty of $4.5 million to the CFPB. The settlement includes a release for all liability related to UGC's captive reinsurance practices and resolves the CFPB's investigation. On January 31, 2014, PHH Corp. and various affiliates (all non-parties to the action and the consent order), filed a motion to reopen the case and to intervene therein for the limited purpose of obtaining a declaratory judgment enforcing the consent order. UGC opposed this request, and on March 10, 2014, the Court denied PHH Corp.'s motion. PHH Corp. has filed a Notice of Appeal to the Eleventh Circuit.

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

AIG is responding to subpoenas from the New York Department of Financial Services (NYDFS) and the Manhattan District Attorney's Office (NYDA) relating to AIG's formerly wholly owned subsidiaries, ALICO and Delaware American Life Insurance Company (DelAm), and other related business units, which were sold by AIG to MetLife in November 2010. The inquiries relate to whether ALICO, DelAm and their representatives conducted insurance business in New York over an extended period of time without a license, and whether certain representations by ALICO concerning its activities in New York were accurate.

On or about March 31, 2014, a consent order between MetLife and the NYDFS, whereby MetLife agreed to pay $50 million, and a deferred prosecution agreement with the NYDA, whereby MetLife agreed to pay $10 million, were announced. AIG was not a party to either settlement. The consent order between the NYDFS and MetLife made certain findings, including that former AIG subsidiaries and affiliates conducted insurance business in New York without a license and that ALICO, while operating as a subsidiary of AIG, made misrepresentations and omissions concerning its insurance business activities in New York to NYDFS's predecessor agency, the New York State Department of Insurance. The NYDFS also found in the consent order that AIG had violated the New York Insurance Law. On April 3, 2014, AIG filed a complaint against the NYDFS and NYDFS Superintendent Benjamin Lawsky in the Southern District of New York, seeking declaratory and injunctive relief on the basis that the NYDFS's interpretation of the New York Insurance Law is unconstitutional under the Due Process and Commerce Clauses, as well as the First Amendment, of the U.S. Constitution.

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Other Contingencies

Liability for unpaid claims and claims adjustment expense

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

Commitments

Flight Equipment Related to Business Held-for-Sale

At March 31, 2014, ILFC had committed to purchase 322 new aircraft with aggregate estimated total remaining payments of approximately $21 billion, which include 12 aircraft through sale-leaseback transactions with airlines, scheduled for delivery through 2022. ILFC had also committed to purchase 13 new spare engines. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price. These commitments are related to businesses that are held-for-sale. See Note 4 for a discussion of the ILFC transaction.

Other Commitments

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $2.6 billion at March 31, 2014.

Guarantees

Subsidiaries

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

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at March 31, 2014 was $240 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay without reimbursement.

Asset Dispositions

General

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

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

ALICO Sale

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

In connection with the indemnity obligations described above, approximately $19 million of proceeds from the sale of ALICO remained in escrow as of March 31, 2014.

Other

- See Note 8 for commitments and guarantees associated with VIEs.
- See Note 9 for disclosures about derivatives.
- See Note 16 for additional disclosures about guarantees of outstanding debt.

Item 1 / NOTE 11. EQUITY

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11. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Three Months Ended March 31, 2014			
Shares, beginning of year	1,906,645,689	(442,582,366)	

			1,464,063,323
Shares issued	9,951	-	9,951
Shares repurchased	-	(17,425,487)	(17,425,487)
Shares, end of period	1,906,655,640	(460,007,853)	1,446,647,787

Dividends

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

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

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

Repurchase of AIG Common Stock

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to $1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise.

On February 13, 2014, our Board of Directors authorized an increase to the August 1, 2013 repurchase authorization of AIG Common Stock by $1.0 billion, resulting in an aggregate remaining authorization at such time of approximately $1.4 billion of AIG Common Stock. During the three months ended March 31, 2014, we repurchased approximately 17.4 million shares of AIG Common Stock for an aggregate purchase price of approximately $867 million pursuant to this authorization, resulting in a remaining authorization of approximately $537 million at March 31, 2014. The timing of any future repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Item 1 / NOTE 11. EQUITY

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Accumulated Other Comprehensive Income

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

Unrealized Appreciation

(Depreciation) of Fixed

Maturity Investments

Unrealized Appreciation (Depreciation) of All Other Investments

Foreign Currency Translation Adjustments

Change in Retirement Plan Liabilities Adjustment

on Which Other-Than-

CMBS

(in millions)	Temporary Credit investments	Total
Balance, December 31, 2013, net of tax	**$ 936**	**$ 6,789**
	$ (952)	**$ (413)**
	$ 6,360	
Change in unrealized appreciation of investments		
CMBS		528

	136
	3,803
	-
	-
	3,939
Change in deferred acquisition costs adjustment and other	
	32
	(256)
	-
	-
	(224)
Change in future policy benefits	
	(87)
	(588)

CMBS

	-
	-
	(675)
Change in foreign currency translation adjustments	
	-
	-
	(102)
	-
	(102)
Net actuarial gain	
	-
	-
	-
	14

14

Prior service cost

-

-

-

(12)

(12)

Change in deferred tax asset (liability)

8

(174)

(56)

7

(215)

Total other comprehensive income (loss)

89

2,785

(158)

9

2,725

Noncontrolling interests

-

-

-

-

-

Balance, March 31, 2014, net of tax

$

1,025

$

9,574

$

(1,110)

$

(404)

$

9,085

Balance, December 31, 2012, net of tax

$

575

$

13,446

$

(403)

$

(1,044)

$

CMBS

	12,574
Change in unrealized appreciation (depreciation) of investments	
	414
	(1,607)
	-
	-
	(1,193)
Change in deferred acquisition costs adjustment and other	
	(2)
	(309)
	-
	-
	(311)
Change in future policy benefits	
	13
CMBS	

	411
	-
	-
	424
Change in foreign currency translation adjustments	
	-
	-
	(293)
	-
	(293)
Net actuarial gain	
	-
	-
	-
CMBS	

57

57

Prior service cost

-

-

-

(14)

(14)

Change in deferred tax asset (liability)

(143)

717

20

1

595

Total other comprehensive income (loss)	
	282
	(788)
	(273)
	44
	(735)
Noncontrolling interests	
	-
	(1)
	1
	-
	-
Balance, March 31, 2013, net of tax	
	$
	857
	$
CMBS	537

12,659

$

(677)

$

(1,000)

$

11,839

The following table presents the other comprehensive income reclassification adjustments for the three month periods ended March 31, 2014 and 2013:

Unrealized Appreciation

(Depreciation) of Fixed

Maturity Investments

Unrealized

Change in

on Which Other-Than-

Appreciation

Foreign

Retirement

CMBS

Temporary Credit

(Depreciation)

Currency

Plan

Impairments Were

of All Other

Translation

Liabilities

(in millions)

Recognized

CMBS

Investments

Adjustments

Adjustment

Total

March 31, 2014

Unrealized change arising during period

$

89

$

3,188

$

(102)

CMBS

	$
	1
	$
	3,176
Less: Reclassification adjustments included in net income	
	8
	229
	-
	(1)
	236

CMBS

Total other comprehensive income (loss), before income tax expense (benefit)	
	81
	2,959
	(102)
	2
	2,940
Less: Income tax expense (benefit)	
	(8)

174

56

(7)

215

Total other comprehensive income (loss),

net of income tax expense (benefit)

$

89

$

2,785

$

(158)

$

CMBS

9

$

2,725

March 31, 2013

Unrealized change arising during period

CMBS

	$
	474
	$
	(1,278)
	$
	(293)
	$
	18
	$
	(1,079)
Less: Reclassification adjustments	
included in net income	
	49
	227

CMBS

	-
	(25)
	251
Total other comprehensive income (loss), before income tax expense (benefit)	
	425
	(1,505)
	(293)
	43
CMBS	

	(1,330)
Less: Income tax expense (benefit)	
	143
	(717)
	(20)
	(1)
	(595)
Total other comprehensive income (loss), net of income tax expense (benefit)	$
CMBS	548

282

$

(788)

$

(273)

$

44

$

(735)

50

Item 1 / NOTE 11. EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

	Amount Reclassified	
	from Accumulated Other	
	Comprehensive Income	
	Three Months Ended March 31,	Affected Line Item in the
(in millions)		
	2014	

CMBS

2013

Consolidated Statements of Income

Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were recognized

Investments

$

8

CMBS

	$ 49
Other realized capital gains	
Total	8
	49
Unrealized appreciation (depreciation) of all other investments	

CMBS

Investments	
	204
	286
Other realized capital gains	
Deferred acquisition costs adjustment	
	35
	43
Amortization of deferred acquisition costs	
Future policy benefits	

CMBS

(10)

(102)

Policyholder benefits and claims incurred

Total

229

227

Change in retirement plan liabilities adjustment

Prior-service costs

CMBS

	12	12
* Actuarial gains/(losses)	**(13)**	(37)
* Total	**(1)**	(25)
Total reclassifications for the period		

$

236

$

251

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

12. NONCONTROLLING INTERESTS

The following table presents a rollforward of noncontrolling interests:

Redeemable

Non-redeemable

Noncontrolling

Noncontrolling

(in millions)

Interests

Interests

Three Months Ended March 31, 2014

Balance, beginning of year	**$**
	30
	$
	611
Contributions from noncontrolling interests	
	1
	5
Distributions to noncontrolling interests	

	-
	(22)
Deconsolidation	
	(4)
	(34)
Comprehensive income (loss):	
Net income (loss)	
	-
	3
Total comprehensive income (loss)	
	-

	3
Other	
	-
	(3)
Balance, end of period	
	$
	27
	$
	560
Three Months Ended March 31, 2013	
Balance, beginning of year	
	$
	334
	$
	667
CMBS	559

Contributions from noncontrolling interests	
	22
	8
Distributions to noncontrolling interests	
	(17)
	(19)
Consolidation (deconsolidation)	
	32
	-
Comprehensive income:	
Net income	

	15
	10
Unrealized losses on investments	
	(1)
	-
Foreign currency translation adjustments	
	2
	(1)
Total other comprehensive income (loss), net of tax	
	1

	(1)
Total comprehensive income	
	16
	9
Other	
	1
	(2)
Balance, end of period	
	$
	388
	$
	663

51

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13. EARNINGS PER SHARE (EPS)

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

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

Three Months Ended March 31,

(dollars in millions, except per share data)

	2014	2013
Numerator for EPS:		
Income from continuing operations		

	$ 1,659	$ 2,158
Less: Net income from continuing operations attributable to noncontrolling interests	**3**	25
Income attributable to AIG common shareholders from continuing operations	**1,656**	2,133
Income (loss) from discontinued operations		

(47)

73

Net income attributable to AIG common shareholders

$

1,609

$

2,206

Denominator for EPS:

Weighted average shares outstanding — basic	**1,459,249,393**
	1,476,471,097
Dilutive shares	

13,261,420

207,834

Weighted average shares outstanding — diluted*

1,472,510,813

1,476,678,931

Income per common share attributable to AIG:

Basic:

Income from continuing operations

$

1.13

$

1.44

CMBS

Income (loss) from discontinued operations	**$**	**(0.03)**	$	0.05
Net Income attributable to AIG	**$**	**1.10**	$	1.49
Diluted:				

Income from continuing operations

$

1.12

$

1.44

Income (loss) from discontinued operations

$

(0.03)

$

0.05

Net Income attributable to AIG

$

1.09

$

1.49

* Dilutive shares are calculated using the treasury stock method and include dilutive shares from share based employee compensation plans, a weighted average portion of the warrants issued to AIG shareholders as part of the recapitalization in January 2011 and a weighted average portion of the warrants issued to the Department of the Treasury in 2009 that we repurchased in the first quarter of 2013. The number of shares excluded from diluted shares outstanding were 0.3 million and 77 million for the three month periods ended March 31, 2014 and 2013, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

Item 1 / NOTE 14. EMPLOYEE BENEFITS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. EMPLOYEE BENEFITS

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

Pension

Postretirement

U.S.

Non-U.S.

U.S.

Non-U.S.

(in millions)

Plans

Plans

Total

Plans

Plans

Total

Three Months Ended March 31, 2014

Components of net periodic benefit cost:

Service cost

$

44

$

11

$

55

$

	1
	$
	-
	$
	1
Interest cost	
	57
	7
	64
	2
	1
	3
Expected return on assets	
	(71)
	(6)
	(77)

	-
	-
	-
Amortization of prior service (credit) cost	
	(8)
	(1)
	(9)
	(2)
	-
	(2)
Amortization of net (gain) loss	
	11
	2

13

-

-

-

Net periodic benefit cost

$

33

$

13

$

46

$

1

$

1

$

2

Three Months Ended March 31, 2013

Components of net periodic benefit cost:

Service cost

	$
	44
	$
	13
	$
	57
	$
	1
	$
	1
	$
	2
Interest cost	
	49
	8
	57
	2
	-
CMBS	

2

Expected return on assets

(65)

(5)

(70)

-

-

-

Amortization of prior service (credit) cost

(8)

(1)

(9)

(3)

	-
	(3)
Amortization of net (gain) loss	
	33
	3
	36
	1
	-
	1
Curtailment (gain) loss	
	-
	(1)
	(1)

-

-

-

Net periodic benefit cost

$

53

$

17

$

70

$

1

$

1

$

2

For the three month period ended March 31, 2014, we contributed $50 million to our U.S. and non-U.S. pension plans and estimate that we will contribute an additional $127 million for the remainder of 2014. These estimates are subject to change because contribution decisions are affected by various factors, including our liquidity, market performance and management discretion.

15. INCOME TAXES

Interim Tax Calculation Method

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

Interim Tax Expense (Benefit)

For the three month period ended March 31, 2014, the effective tax rate on income from continuing operations was 27.0 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt interest income and a decrease in AIG Life and Retirement’s capital loss carryforward valuation allowance from realized gains on sales of available-for-sale securities.

For the three month period ended March 31, 2013, the effective tax rate on income from continuing operations was 24.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily

Item 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

due to tax benefits associated with tax exempt interest income and a decrease in the AIG Life and Retirement's capital loss carryforward valuation allowance related to the actual and projected gains on sales of AIG Life and Retirement's available-for-sale securities. These items were partially offset by changes in uncertain tax positions.

Assessment of Deferred Tax Asset Valuation Allowance

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

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

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;
- the sustainability of recent operating profitability of our subsidiaries;
- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- the carryforward period for the net operating loss, capital loss and foreign tax credit carryforwards, including the effect of reversing taxable temporary differences; and
- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

As a result of sales in the ordinary course of business to manage our investment portfolio, the implementation of prudent and feasible tax planning strategies and changes in market conditions, during the three month period ended March 31, 2014, certain AIG Life and Retirement capital loss carryforwards were realized prior to their expiration.

For the three month period ended March 31, 2014, we recognized a $954 million decrease to our deferred tax asset valuation allowance associated with AIG Life and Retirement's capital loss carryforwards and unrealized tax losses in AIG Life and Retirement's available for sale portfolio, of which $62 million was allocated to income from continuing operations and $892 million was allocated to other comprehensive income.

Additional AIG Life and Retirement's capital loss carryforwards may be realized in the future if and when other prudent and feasible tax planning strategies are identified. Changes in market conditions, including rising interest rates, may result in a reduction in projected taxable gains and an increase to certain deferred tax asset valuation allowances.

Tax Examinations and Litigation

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

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

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

Item 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accounting for Uncertainty in Income Taxes

At March 31, 2014 and December 31, 2013, our unrecognized tax benefits, excluding interest and penalties, were $4.4 billion and $4.3 billion, respectively. At both March 31, 2014 and December 31, 2013, our unrecognized tax benefits included $0.1 billion related to tax positions that if recognized would not affect the effective tax rate because they relate to the timing, rather than the permissibility, of the deduction. Accordingly, at March 31, 2014 and December 31, 2013, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.3 billion and $4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At both March 31, 2014 and December 31, 2013, we had accrued liabilities of $1.1 billion for the payment of interest (net of the federal benefit) and penalties. For the three month periods ended March 31, 2014 and 2013, we accrued expense of $20 million and $157 million, respectively, for the payment of interest (net of the federal benefit) and penalties.

We regularly evaluate adjustments proposed by taxing authorities. At March 31, 2014, such proposed adjustments would not have resulted in a material change to our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

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

Condensed Consolidating Balance Sheets

American

International

Reclassifications

Group, Inc.

Other

and

Consolidated

(in millions)

(As Guarantor)

AIGLH

Subsidiaries

Eliminations

AIG

March 31, 2014

CMBS

Assets:

Short-term investments	$	10,249	$	-	$	9,029	$	(1,620)

CMBS

	$
	17,658
Other investments(a)	
	7,145
	-
	332,732
	-
	339,877
Total investments	
	17,394
	-
	341,761
	(1,620)
	357,535
Cash	

	60
	9
	2,421
	-
	2,490
Loans to subsidiaries(b)	
	31,013
	-
	735
	(31,748)
	-
Investment in consolidated subsidiaries(b)	
	69,439
	39,574

	-
	(109,013)
	-
Other assets, including deferred income taxes	
	23,726
	206
	134,139
	(1,752)
	156,319
Assets held for sale	
	-
	-
	30,767
	-

30,767

Total assets

$

141,632

$

39,789

$

509,823

$

(144,133)

$

547,111

Liabilities:

Insurance liabilities

$

-

	$
	-
	$
	273,598
	$
	-
	$
	273,598
Long-term debt	
	28,657
	1,352
	9,499
	-
	39,508
Other liabilities, including intercompany balances(a)(c)	
	8,334
	96
	98,686

	(3,346)
	103,770
Loans from subsidiaries(b)	
	808
	100
	30,933
	(31,841)
	-
Liabilities held for sale	
	-
	-
	25,815
	-
	25,815

Total liabilities

	37,799
	1,548
	438,531
	(35,187)
	442,691

Redeemable noncontrolling interests (see Note 12)

	-
	-
	27
	-
	27

Total AIG shareholders' equity

	103,833

	38,241
	70,705
	(108,946)
	103,833
Non-redeemable noncontrolling interests	
	-
	-
	560
	-
	560
Total equity	
	103,833
	38,241
	71,265

(108,946)

104,393

Total liabilities and equity

$

141,632

$

39,789

$

509,823

$

(144,133)

$

547,111

December 31, 2013

Assets:

CMBS

Short-term investments	
	$
	11,965
	$
	-
	$
	11,404
	$
	(1,752)
	$
	21,617
Other investments(a)	
	7,561
	-

	327,250
	-
	334,811
Total investments	
	19,526
	-
	338,654
	(1,752)
	356,428
Cash	
	30
	51
	2,160
	-

CMBS

2,241

Loans to subsidiaries(b)

31,220

-

854

(32,074)

-

Investment in consolidated subsidiaries(b)

66,201

39,103

-

(105,304)

-

Other assets, including deferred income taxes

	21,606
	112
	132,492
	(1,086)
	153,124
Assets held for sale	
	-
	-
	29,536
	-
	29,536
Total assets	
	$
	138,583
	$
	39,266
	$
CMBS	606

503,696

$

(140,216)

$

541,329

Liabilities:

Insurance liabilities

$

-

$

-

$

271,252

$

-

$

CMBS

	271,252
Long-term debt	
	30,839
	1,352
	9,502
	-
	41,693
Other liabilities, including intercompany balances(a)(c)	
	6,422
	161
	98,908
	(2,766)
	102,725
Loans from subsidiaries(b)	
	852

	200
	31,173
	(32,225)
	-
Liabilities held for sale	
	-
	-
	24,548
	-
	24,548
Total liabilities	
	38,113
	1,713
	435,383
CMBS	

	(34,991)
	440,218
Redeemable noncontrolling interests (see Note 12)	
	-
	-
	30
	-
	30
Total AIG shareholders' equity	
	100,470
	37,553
	67,672
	(105,225)
	100,470

Non-redeemable noncontrolling interests

-

-

611

-

611

Total equity

100,470

37,553

68,283

(105,225)

101,081

Total liabilities and equity

$

138,583

$

CMBS 611

39,266

$

503,696

$

(140,216)

$

541,329

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

(b) Eliminated in consolidation.

(c) For March 31, 2014 and December 31, 2013, includes intercompany tax payable of $2.7 billion and $1.4 billion, respectively, and intercompany derivative liabilities of $246 million and $249 million, respectively, for American International Group, Inc. (As Guarantor) and intercompany tax receivable (payable) of $ (19) million and $98 million, respectively, for AIGLH.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Income

American

International

Reclassifications

Group, Inc.

Other

and

Consolidated

(in millions)

(As Guarantor)

AIGLH

CMBS

Subsidiaries

Eliminations

AIG

Three Months Ended March 31, 2014

Revenues:

Equity in earnings of consolidated subsidiaries*	
	$
	1,985
	$
	730
	$
	-
	$
	(2,715)
	$
	-
Other income	
	224
	-
	16,000
	(112)
	16,112
Total revenues	

	2,209
	730
	16,000
	(2,827)
	16,112
Expenses:	
Interest expense	
	422
	29

61

(33)

479

Loss on extinguishment of debt

288

-

-

(50)

238

Other expenses

242

1

12,918

(39)

13,122

Total expenses

952

30

12,979

(122)

13,839

Income (loss) from continuing operations before income tax

expense (benefit)

1,257

700

3,021

(2,705)

2,273

Income tax expense (benefit)

(349)

(144)

1,126

(19)

614

Income (loss) from continuing operations

1,606

844

1,895

	(2,686)
	1,659
Income (loss) from discontinued operations, net of income taxes	
	3
	-
	(50)
	-
	(47)
Net income (loss)	
	1,609
	844
	1,845
	(2,686)
	1,612

Less:

Total net income attributable to

noncontrolling interests

-

-

3

-

3

Net income (loss) attributable to AIG

$

1,609

$

844

$

1,842

$

(2,686)

$

1,609

Three Months Ended March 31, 2013

Revenues:

Equity in earnings of consolidated subsidiaries*

$

1,891

$

670

$

-

$

(2,561)

$

-

Other income

	294
	-
	16,737
	(69)
	16,962
Total revenues	
	2,185
	670
	16,737
	(2,630)
	16,962
Expenses:	

Interest expense	
	528
	36
	82
	(69)
	577
Loss on extinguishment of debt	
	269
	-
	71
	-

	340
Other expenses	
	258
	71
	12,841
	-
	13,170
Total expenses	
	1,055
	107
	12,994
	(69)
	14,087
Income (loss) from continuing operations before income tax	

expense (benefit)	
	1,130
	563
	3,743
	(2,561)
	2,875
Income tax expense (benefit)	
	(1,080)
	(11)

CMBS

	1,808
	-
	717
Income (loss) from continuing operations	
	2,210
	574
	1,935
	(2,561)
	2,158
Income (loss) from discontinued operations, net of income taxes	
	(4)
	-
	77
	-

73

Net income (loss)

2,206

574

2,012

(2,561)

2,231

Less:

Net income from continuing operations attributable to

noncontrolling interests:

Other

-

-

25

CMBS

-

25

Total net income attributable to noncontrolling interests

-

-

25

-

25

Net income (loss) attributable to AIG

$

2,206

$

574

$

1,987

$

(2,561)

$

2,206

CMBS

* Eliminated in consolidation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Comprehensive Income

American

International

Reclassifications

Group, Inc.

Other

and

Consolidated

(in millions)

(As Guarantor)

AIGLH

Subsidiaries

Eliminations

AIG

Three Months Ended March 31, 2014

CMBS

Net income (loss)	$	1,609	$	844	$	1,845	$	(2,686)	$	1,612
Other comprehensive income (loss)		2,725		1,494		1,849		(3,343)		

CMBS

	2,725
Comprehensive income (loss)	
	4,334
	2,338
	3,694
	(6,029)
	4,337
Total comprehensive income attributable to noncontrolling interests	
	-
	-
	3
	-
	3
Comprehensive income (loss) attributable to AIG	
	$

4,334

$

2,338

$

3,691

$

(6,029)

$

4,334

Three Months Ended March 31, 2013

Net income (loss)

$

2,206

$

574

$

CMBS

	2,012
	$
	(2,561)
	$
	2,231
Other comprehensive income (loss)	
	(735)
	(639)
	(920)
	1,559
	(735)
Comprehensive income (loss)	
	1,471
	(65)
	1,092
	(1,002)

CMBS

	1,496
Total comprehensive income attributable to noncontrolling interests	
	-
	-
	25
	-
	25
Comprehensive income (loss) attributable to AIG	
	$
	1,471
	$
	(65)
	$
	1,067
	$
	(1,002)
	$
	1,471

58

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Cash Flows

American

Other

International

Subsidiaries

Group, Inc.

and

Consolidated

(in millions)

(As Guarantor)

AIGLH

Eliminations

AIG

Three Months Ended March 31, 2014

Net cash (used in) provided by operating activities

875

1,711

(1,823)

763

Cash flows from investing activities:

Sales of investments

430

-

14,813

15,243

Purchase of investments

(38)

	-
	(14,260)
	(14,298)
Loans to subsidiaries – net	
	295
	-
	(295)
	-
Contributions to subsidiaries – net	
	40
	-
	(40)
	-
Net change in restricted cash	

	(6)
	-
	(661)
	(667)
Net change in short-term investments	
	2,027
	-
	1,561
	3,588
Other, net	
	(16)
	-
	(67)
	(83)
Net cash provided by investing activities	

2,732

-

1,051

3,783

Cash flows from financing activities:

Issuance of long-term debt

-

-

1,583

1,583

Repayments of long-term debt	
	(2,196)
	-
	(1,085)
	(3,281)
Purchase of Common Stock	
	(867)
	-
	-
	(867)
Intercompany loans - net	
	(47)
	(100)
	147

	-
Cash dividends paid	
	(182)
	(1,653)
	1,653
	(182)
Other, net	
	(285)
	-
	(1,257)
	(1,542)
Net cash (used in) provided by financing activities	
	(3,577)
	(1,753)
	1,041

	(4,289)
Effect of exchange rate changes on cash	
	-
	-
	(11)
	(11)
Change in cash	
	30
	(42)
	258
	246
Cash at beginning of year	
	30
	51

2,160

2,241

Reclassification to assets held for sale

-

-

3

3

Cash at end of period

$

60

$

9

$

2,421

$

2,490

Three Months Ended March 31, 2013

Net cash (used in) provided by operating activities	
	(606)
	1,243
	(786)
	(149)
Cash flows from investing activities:	

Sales of investments	
	212
	-
	16,932
	17,144
Purchase of investments	
	(2,448)
	-
	(16,214)
	(18,662)
Loans to subsidiaries – net	
	1,710

	-
	(1,710)
	-
Contributions to subsidiaries – net	
	(30)
	-
	30
	-
Net change in restricted cash	
	-
	-
	296
	296
Net change in short-term investments	

	3,255
	-
	2,224
	5,479
Other, net	
	179
	-
	(472)
	(293)
Net cash provided by investing activities	
	2,878
	-
	1,086
	3,964
Cash flows from financing activities:	
CMBS	660

Issuance of long-term debt	
	-
	-
	1,395
	1,395
Repayments of long-term debt	
	(2,149)
	(245)
	(1,943)
	(4,337)

Intercompany loans - net	
	97
	(93)
	(4)
	-
Purchase of common stock	
	-
	-
	-
	-
Cash dividends paid to shareholders	
	-
	(978)
	978

	-
Other, net	
	(243)
	-
	(533)
	(776)
Net cash (used in) financing activities	
	(2,295)
	(1,316)
	(107)
	(3,718)
Effect of exchange rate changes on cash	
	-
	-
	(36)

	(36)
Change in cash	
	(23)
	(73)
	157
	61
Cash at beginning of year	
	81
	73
	997
	1,151
Change in cash of businesses held for sale	
	-
	-
CMBS	664

15

15

Cash at end of period

$

58

$

-

$

1,169

$

1,227

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Supplementary Disclosure of Condensed Consolidating Cash Flow Information

American

Other

International

Subsidiaries

Group, Inc.

and

Consolidated

(in millions)

(As Guarantor)

AIGLH

Eliminations

AIG

Cash (paid) received during the 2014 period for:

Interest:

CMBS

Third party	$	(363)	$	(41)	$	(436)	$	(840)
Intercompany		(1)		(4)		5		-

Taxes:

Income tax authorities	$	(3)	$	-	$	(162)	$	(165)
Intercompany		289		-		(289)		-

Cash (paid) received during the 2013 period for:

Interest:

CMBS