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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

AMERICAN INTERNATIONAL GROUP, INC.

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

June 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2016 - $244,450; 2015 - $240,968)

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

Equity Securities:

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

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

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

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

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

Total investments

Cash

Accrued investment income

Premiums and other receivables, net of allowance

Reinsurance assets, net of allowance

Deferred income taxes

Deferred policy acquisition costs

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

Separate account assets, at fair value

Total assets

Liabilities:

Liability for unpaid losses and loss adjustment expenses

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME *(unaudited)*

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED Statements of Equity *(unaudited)*

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

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

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

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

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

Sale of ILFC

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

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

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

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Use of Estimates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2016

Accounting for Share-Based Payments with Performance Targets

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Consolidation: Amendments to the Consolidation Analysis

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

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

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

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

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

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

Simplifying the Presentation of Debt Issuance Costs

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Future Application of Accounting Standards

Revenue Recognition

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

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

Short Duration Insurance Contracts

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Leases

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

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

Derivative Contract Novations

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

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

Contingent Put and Call Options in Debt Instruments

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

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

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Simplifying the Transition to the Equity Method of Accounting

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

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

Improvements to Employee Share-Based Payment Accounting

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

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

Calculation of Credit Losses

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

3. SEGMENT INFORMATION

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

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

The following tables present our operations by reportable segment:

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

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

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

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

4. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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

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

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

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

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

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

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

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

Changes in Level 3 Recurring Fair Value Measurements

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

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe
Three Months Ended June 30, 2016					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,196	$ 2	$ 136	$ (21)	$
Non-U.S. governments	30	-	-	2	
Corporate debt	1,024	2	7	(65)	19
RMBS	16,162	234	61	61	20
CMBS	2,368	16	10	(87)	
CDO/ABS	6,592	8	93	382	
Total bonds available for sale	28,372	262	307	272	45
Other bond securities:					
Corporate debt	18	1	-	(1)	
RMBS	1,513	14	-	(41)	
CMBS	170	-	-	(2)	
CDO/ABS	6,576	109	-	(308)	

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

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

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

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

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

(in millions)	Fair value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gros Transfe
Three Months Ended June 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,256	$ -	$ (124)	$ 93	$
Non-U.S. governments	34	-	(1)	-	
Corporate debt	1,827	14	(50)	(85)	41
RMBS	17,345	281	(99)	(430)	
CMBS	2,694	22	(40)	17	
CDO/ABS	6,453	97	(196)	(283)	
Total bonds available for sale	30,609	414	(510)	(688)	41
Other bond securities:					
Corporate debt	16	-	-	-	

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

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

(in millions)	Fair value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gros Transfe
Six Months Ended June 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions[c]	$ 2,159	$ 1	$ (79)	$ 158	$
Non-U.S. governments	30	-	(1)	4	
Corporate debt	1,883	14	(33)	(146)	45
RMBS	16,805	539	(171)	(76)	
CMBS	2,696	46	(30)	47	
CDO/ABS	6,110	130	(167)	119	
Total bonds available for sale	29,683	730	(481)	106	45
Other bond securities:					
Corporate debt	-	-	-	-	-

RMBS	1,105	26	-	220	4
CMBS	369	8	-	(154)	
CDO/ABS	7,449	397	-	(926)	58
Total other bond securities	8,923	431	-	(860)	64
Equity securities available for sale:					
Common stock	1	2	-	(3)	
Total equity securities available for sale	1	2	-	(3)	
Other equity securities	-	-	-	-	2
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	1,042	472	(488)	(589)	
Total	$ 39,655	$ 1,635	$ (969)	$ (1,346)	$ 1,11

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

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

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

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

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

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

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

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

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

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

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

(in millions)		Purchases	Sales	Settlements	Purchase Sales, Issues ar Settlements, Net
Six Months Ended June 30, 2016					
Assets:					

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

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

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

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

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

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at June 30, 2016 and 2015 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

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Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 classification at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excluded $3 million of net gains and $10 million of net losses, related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2016, respectively, and included $8 million and $53 million, of net losses related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2016, respectively.

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

Transfers of Level 3 Assets

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

During the three- and six-month periods ended June 30, 2016 and 2015, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, CDO/ABS, RMBS and certain investments in municipal securities. Transfers of certain investments municipal securities, corporate debt, RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities

without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

Transfers of Level 3 Liabilities

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

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Quantitative Information About Level 3 Fair Value Measurements

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

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

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

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

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

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

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

(c) Mortality inputs are shown as multipliers of the 2012 Individual Annuity Mortality Basic table for GMWB and GMAB, and the 1975-1980 Modified Basic Table for index annuities.

The ranges of reported inputs for Obligations of states, municipalities and political subdivisions, Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of one standard deviation in either direction from the value weighted average. The preceding table does not give effect to our risk management practices that might offset risks inherent in these Level 3 assets and liabilities.

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Sensitivity to Changes in Unobservable Inputs

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

Obligations of States, Municipalities and Political Subdivisions

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

Corporate Debt

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

RMBS and CDO/ABS

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

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CMBS

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

Embedded derivatives within Policyholder contract deposits

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

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

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

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

increases in assumed lapse rates may increase the fair value of the liability.

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

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

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

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

		June 30, 2016		December 31, 2015	
(in millions)	Investment Category Includes	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 1,560**	**$ 547**	$ 1,774	$ 436
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**266**	**227**	306	213
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an	**99**	**34**	107	41

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

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager’s discretion, typically in one- or two year increments. At June 30, 2016, assuming average original expected

lives of 10 years for the funds, 78 percent of the total fair value using NAV per share (or its equivalent) presented above would have expected remaining lives of three years or less, 10 percent between four and six years and 12 percent between seven and 10 years.

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

Fair Value Option

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

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

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

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

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

collateral posted.

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

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

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

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Fair Value Measurements on a Non-Recurring Basis

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges			
					Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2016**	2015	**2016**	2015
June 30, 2016								
Other investments	**$ -**	**$ -**	**$ 176**	**$ 176**	**$ 29**	$ 27	**$ 31**	$ 52
Investments in life settlements	**-**	**-**	**534**	**534**	**92**	72	**249**	142
Other assets	**-**	**-**	**1**	**1**	**9**	4	**9**	8
Total	**$ -**	**$ -**	**$ 711**	**$ 711**	**$ 130**	$ 103	**$ 289**	$ 202
December 31, 2015								
Other investments	$ -	$ -	$ 1,117	$ 1,117				
Investments in life settlements	-	-	828	828				
Other assets	-	-	129	129				
Total	$ -	$ -	$ 2,074	$ 2,074				

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

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

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

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5. INVESTMENTS

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Othe Ter Impa in
June 30, 2016					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 2,024**	**$ 245**	**$ (2)**	**$ 2,267**	**$**
Obligations of states, municipalities and political subdivisions	**26,244**	**2,560**	**(27)**	**28,777**	
Non-U.S. governments	**18,559**	**1,643**	**(110)**	**20,092**	
Corporate debt	**132,265**	**11,026**	**(1,130)**	**142,161**	
Mortgage-backed, asset-backed and collateralized:					
RMBS	**35,072**	**2,824**	**(452)**	**37,444**	
CMBS	**14,103**	**928**	**(57)**	**14,974**	
CDO/ABS	**16,183**	**398**	**(207)**	**16,374**	
Total mortgage-backed, asset-backed and collateralized	**65,358**	**4,150**	**(716)**	**68,792**	
Total bonds available for sale[(b)]	**244,450**	**19,624**	**(1,985)**	**262,089**	
Equity securities available for sale:					
Common stock	**796**	**332**	**(11)**	**1,117**	
Preferred stock	**19**	**4**	**-**	**23**	
Mutual funds	**431**	**71**	**-**	**502**	
Total equity securities available for sale	**1,246**	**407**	**(11)**	**1,642**	
Total	**$ 245,696**	**$ 20,031**	**$ (1,996)**	**$ 263,731**	**$**
December 31, 2015					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 1,698	$ 155	$ (9)	$ 1,844	$
Obligations of states, municipalities and political subdivisions	26,003	1,424	(104)	27,323	
Non-U.S. governments	17,752	805	(362)	18,195	

Corporate debt	133,513	6,462	(3,987)	135,988	
Mortgage-backed, asset-backed and collateralized:					
RMBS	33,878	2,760	(411)	36,227	
CMBS	13,139	561	(129)	13,571	
CDO/ABS	14,985	360	(248)	15,097	
Total mortgage-backed, asset-backed and collateralized	62,002	3,681	(788)	64,895	
Total bonds available for sale[b]	240,968	12,527	(5,250)	248,245	
Equity securities available for sale:					
Common stock	913	1,504	(16)	2,401	
Preferred stock	19	3	-	22	
Mutual funds	447	53	(8)	492	
Total equity securities available for sale	1,379	1,560	(24)	2,915	
Total	$ 242,347	$ 14,087	$ (5,274)	$ 251,160	$

(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 fair value of such securities subsequent to the impairment measurement date.

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(b) At June 30, 2016 and December 31, 2015, bonds available for sale held by us that were below investment grade or not rated totaled $35.8 billion and $34.9 billion, respectively.

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gr Unreali Los
June 30, 2016						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 51**	**$ 2**	**$ 12**	**$ -**	**$ 63**	**$**
Obligations of states, municipalities and political subdivisions	**163**	**1**	**257**	**26**	**420**	
Non-U.S. governments	**1,236**	**25**	**1,005**	**85**	**2,241**	
Corporate debt	**8,058**	**302**	**9,098**	**828**	**17,156**	**1,**
RMBS	**4,263**	**125**	**4,731**	**327**	**8,994**	
CMBS	**620**	**29**	**639**	**28**	**1,259**	
CDO/ABS	**4,936**	**104**	**2,888**	**103**	**7,824**	
Total bonds available for sale	**19,327**	**588**	**18,630**	**1,397**	**37,957**	**1,**
Equity securities available for sale:						
Common stock	**142**	**10**	**2**	**1**	**144**	
Mutual funds	**13**	**-**	**-**	**-**	**13**	
Total equity securities available for sale	**155**	**10**	**2**	**1**	**157**	
Total	**$19,482**	**$ 598**	**$18,632**	**$ 1,398**	**$38,114**	**$ 1,**
December 31, 2015						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 483	$ 9	$ 1	$ -	$ 484	$
Obligations of states, municipalities and political subdivisions	2,382	87	268	17	2,650	
Non-U.S. governments	4,327	203	832	159	5,159	
Corporate debt	41,317	2,514	5,428	1,473	46,745	3,

RMBS	7,215	133	4,318	278	11,533	
CMBS	4,138	108	573	21	4,711	
CDO/ABS	7,064	104	2,175	144	9,239	
Total bonds available for sale	66,926	3,158	13,595	2,092	80,521	5,
Equity securities available for sale:						
Common stock	91	16	-	-	91	
Mutual funds	200	8	-	-	200	
Total equity securities available for sale	291	24	-	-	291	
Total	$67,217	$ 3,182	$13,595	$ 2,092	$80,812	$ 5,

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At June 30, 2016, we held 7,153 and 140 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 3,129 individual fixed maturity securities were in a continuous unrealized loss position for 12 months or more. We did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2016 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

June 30, 2016	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	**$ 8,363**	**$ 8,501**	**$ 745**	**$ 734**
Due after one year through five years	**51,468**	**54,680**	**4,813**	**4,616**
Due after five years through ten years	**50,399**	**53,104**	**7,253**	**6,779**
Due after ten years	**68,862**	**77,012**	**8,338**	**7,751**
Mortgage-backed, asset-backed and collateralized	**65,358**	**68,792**	**18,793**	**18,077**
Total	**$ 244,450**	**$ 262,089**	**$ 39,942**	**$ 37,957**
December 31, 2015				
Due in one year or less	$ 9,176	$ 9,277	$ 1,122	$ 1,103
Due after one year through five years	47,230	49,196	9,847	9,494
Due after five years through ten years	54,120	54,459	22,296	20,686
Due after ten years	68,440	70,418	26,235	23,755
Mortgage-backed, asset-backed and collateralized	62,002	64,895	26,271	25,483
Total	$ 240,968	$ 248,245	$ 85,771	$ 80,521

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:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		**2016**		2015	
(in millions)	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 217**	**$ 93**	$ 194	$ 59	**$ 404**	**$ 642**	$ 343	$ 177
Equity securities	**980**	**6**	24	3	**1,012**	**14**	520	8
Total	**$ 1,197**	**$ 99**	$ 218	$ 62	**$ 1,416**	**$ 656**	$ 863	$ 185

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For the three and six-month periods ended June 30, 2016, the aggregate fair value of available for sale securities sold was $8.3 billion and $14.4 billion, respectively, which resulted in net realized capital gains of $1.1 billion and net realized capital gains of $760 million, respectively.

For the three and six-month periods ended June 30, 2015, the aggregate fair value of available for sale securities sold was $7.1 billion and $14.0 billion, respectively, which resulted in net realized capital gains of $156 million and $678 million, 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:

	June 30, 2016		December 31, 2015	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 3,595	23 %	$ 3,369	19%
Obligations of states, municipalities and political subdivisions	-	-	75	-
Non-U.S. governments	55	-	50	-
Corporate debt	1,967	12	2,035	12
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,925	12	2,230	13
CMBS	666	4	750	4
CDO/ABS and other collateralized*	7,127	45	8,273	47
Total mortgage-backed, asset-backed and collateralized	9,718	61	11,253	64
Total fixed maturity securities	15,335	96	16,782	95
Equity securities	661	4	921	5
Total	$ 15,996	100 %	$ 17,703	100%

* Includes $557 million and $712 million of U.S. Government agency-backed ABS at June 30, 2016 and December 31, 2015, respectively.

Other Invested Assets

The following table summarizes the carrying amounts of other invested assets:

(in millions)		June 30, 2016		December 31, 2015
Alternative investments[(a)] [(b)]	$	14,972	$	18,150
Investment real estate[(c)]		7,340		6,579
Aircraft asset investments[(d)]		427		477
Investments in life settlements		3,565		3,606
All other investments		1,041		982
Total	$	27,345	$	29,794

(a) At June 30, 2016, includes hedge funds of $8.3 billion, private equity funds of $6.0 billion, and affordable housing partnerships of $633 million. At December 31, 2015, includes hedge funds of $10.9 billion, private equity funds of $6.5 billion, and affordable housing partnerships of $701 million.

(b) Approximately 59 percent of our hedge fund portfolio is available for redemption in 2016, an additional 24 percent and 10 percent will be available in 2017 and 2018, respectively.

(c) Net of accumulated depreciation of $579 million and $668 million in June 30, 2016 and December 31, 2015, respectively.

(d) Consists of investments in aircraft equipment held in consolidated trusts.

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Net Investment Income

The following table presents the components of Net investment income:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2016**	2015	**2016**	2015
Fixed maturity securities, including short-term investments	**$ 2,992**	$ 2,800	**$ 5,928**	$ 5,683
Equity securities	**(22)**	66	**(44)**	81
Interest on mortgage and other loans	**376**	347	**765**	686
Alternative investments*	**310**	658	**(56)**	1,244
Real estate	**35**	24	**88**	50
Other investments	**101**	48	**238**	189
Total investment income	**3,792**	3,943	**6,919**	7,933
Investment expenses	**109**	117	**223**	269
Net investment income	**$ 3,683**	$ 3,826	**$ 6,696**	$ 7,664

* Beginning in the first quarter of 2016, the presentation of income on alternative investments has been refined to include only income from hedge funds, private equity funds and affordable housing partnerships. Prior period disclosures have been reclassified to conform to this presentation. Hedge funds for which we elected the fair value option are recorded as of the balance sheet date. Other hedge funds are generally reported on a one-month lag, while private equity funds are generally reported on a one-quarter lag.

Net Realized Capital Gains and Losses

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2016**	2015	**2016**	2015
Sales of fixed maturity securities	**$ 124**	$ 135	**$ (238)**	$ 166
Sales of equity securities	**974**	21	**998**	512
Other-than-temporary impairments:				
Severity	**(3)**	-	**(5)**	(2)
Change in intent	**(4)**	(88)	**(33)**	(112)

Foreign currency declines	**(1)**	(3)	**(7)**	(32)
Issuer-specific credit events	**(95)**	(70)	**(226)**	(138)
Adverse projected cash flows	**(5)**	(3)	**(41)**	(8)
Provision for loan losses	**(30)**	(13)	**-**	11
Foreign exchange transactions	**(38)**	66	**(558)**	320
Derivatives and hedge accounting	**170**	288	**97**	496
Impairments on investments in life settlements	**(92)**	(72)	**(249)**	(142)
Other*	**42**	(135)	**198**	396
Net realized capital gains (losses)	**$ 1,042**	$ 126	**$ (64)**	$ 1,467

* Includes $107 million of realized gains due to a purchase price adjustment on the sale of Class B shares of Prudential Financial Inc. for the six months ended June 30, 2016 and $357 million of realized gains due to the sale of common shares of SpringLeaf Holdings, $428 million of realized gains due to the sale of Class B shares of Prudential Financial Inc. and $463 million of realized losses due to the sale of ordinary shares of AerCap for the six months ended June 30, 2015.

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Change in Unrealized Appreciation (Depreciation) of Investments

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

	Three Months Ended June 30,		Six Month Ended June 30	
(in millions)	**2016**	2015	**2016**	
Increase (decrease) in unrealized appreciation (depreciation) of investments:				
Fixed maturity securities	**$ 5,584**	$(6,559)	**$ 10,362**	$(4,
Equity securities	**(1,045)**	287	**(1,140)**	
Other investments	**(66)**	(37)	**(214)**	(
Total Increase (decrease) in unrealized appreciation (depreciation) of investments	**$ 4,473**	$(6,309)	**$ 9,008**	$(5,

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of our policy for evaluating investments for other-than-temporary impairments, see Note 5 to the Consolidated Financial Statements in the 2015 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 June 30,		Six Months Ended June 30,	
(in millions)	**2016**	2015	**2016**	2015
Balance, beginning of period	**$ 1,523**	$ 2,466	**$ 1,747**	$ 2,659
Increases due to:				
Credit impairments on new securities subject to impairment losses	**13**	35	**123**	50
Additional credit impairments on previously impaired securities	**74**	25	**129**	47
Reductions due to:				

Credit impaired securities fully disposed of for which there was no prior intent or requirement to sell	**(93)**	(108)	**(243)**	(150)
Accretion on securities previously impaired due to credit*	**(219)**	(180)	**(458)**	(368)
Balance, end of period	**$ 1,298**	$ 2,238	**$ 1,298**	$ 2,238

* 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.

Transfers of Level 3 Liabilities

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Purchased Credit Impaired (PCI) Securities

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

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

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

(in millions)		**At Date of Acquisition**
Contractually required payments (principal and interest)	**$**	**34,940**
Cash flows expected to be collected*		**28,437**
Recorded investment in acquired securities		**19,059**

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

(in millions)		**June 30, 2016**		December 31, 2015
Outstanding principal balance	**$**	**17,173**	$	16,871
Amortized cost		**12,397**		12,303
Fair value		**12,992**		13,164

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		**2016**		2015		**2016**		2015
Balance, beginning of period	**$**	**6,622**	$	6,765	**$**	**6,846**	$	6,865
Newly purchased PCI securities		**245**		170		**451**		415
Disposals		**-**		(13)		**-**		(13)
Accretion		**(209)**		(221)		**(423)**		(441)
Effect of changes in interest rate indices		**60**		(6)		**(239)**		(144)
Net reclassification from (to) non-accretable difference, including effects of prepayments		**325**		138		**408**		151
Balance, end of period	**$**	**7,043**	$	6,833	**$**	**7,043**	$	6,833

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Pledged Investments

Secured Financing and Similar Arrangements

We enter into secured financing transactions whereby certain securities are sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. Our secured financing transactions also include those that involve the transfer of securities to financial institutions in exchange for cash (securities lending agreements). In all of these secured financing transactions, the securities transferred by us (pledged collateral) may be sold or repledged by the counterparties. These agreements are recorded at their contracted amounts plus accrued interest, other than those that are accounted for at fair value.

Pledged collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the amounts borrowed during the life of the transactions. In the event of a decline in the fair value of the pledged collateral under these secured financing transactions, we may be required to transfer cash or additional securities as pledged collateral under these agreements. At the termination of the transactions, we and our counterparties are obligated to return the amounts borrowed and the securities transferred, respectively.

The following table presents the fair value of securities pledged to counterparties under secured financing transactions, including repurchase and securities lending agreements:

(in millions)	**June 30, 2016**	December 31, 2015
Fixed maturity securities available for sale	**$ 1,704**	$ 1,145
Other bond securities, at fair value	**$ 2,093**	$ 1,740

At June 30, 2016 and December 31, 2015, amounts borrowed under repurchase and securities lending agreements totaled $3.8 billion and $2.9 billion, respectively.

The following table presents the fair value of securities pledged under our repurchase agreements by collateral type and by remaining contractual maturity:

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight	up to	31 -	91 -	365	Total

	and Continuous	30 days	90 days	364 days	days or greater	
June 30, 2016						
Other bond securities:						
U.S. government and government sponsored entities	**$ 116**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 116**
Non-U.S. governments	**-**	**-**	**-**	**55**	**-**	**55**
Corporate debt	**-**	**73**	**734**	**980**	**120**	**1,907**
Total	**$ 116**	**$ 73**	**$ 734**	**$ 1,035**	**$ 120**	**$ 2,078**
December 31, 2015						
Bonds available for sale:						
Non-U.S. governments	$ -	$ 50	$ -	$ -	$ -	$ 50
Other bond securities:						
Non-U.S. governments	-	-	-	49	-	49
Corporate debt	-	33	332	1,326	-	1,691
Total	$ -	$ 83	$ 332	$ 1,375	$ -	$ 1,790

Transfers of Level 3 Liabilities

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The following table presents the fair value of securities pledged under our securities lending agreements by collateral type and by remaining contractual maturity:

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
June 30, 2016						
Bonds available for sale:						
Corporate debt	**$ -**	**$ 285**	**$ 713**	**$ 243**	**$ 20**	**$ 1,261**
RMBS	**-**	**241**	**201**	**-**	**-**	**442**
Other bond securities:						
RMBS	**-**	**9**	**7**	**-**	**-**	**16**
Total	**$ -**	**$ 535**	**$ 921**	**$ 243**	**$ 20**	**$ 1,719**
December 31, 2015						
Bonds available for sale:						
Non-U.S. governments	$ -	$ -	$ 57	$ -	$ -	$ 57
Corporate debt	-	-	914	-	-	914
RMBS	-	-	-	124	-	124
Total	$ -	$ -	$ 971	$ 124	$ -	$ 1,095

We also enter into agreements in which securities are purchased by us under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. These agreements are recorded at their contracted resale amounts plus accrued interest, other than those that are accounted for at fair value. 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)	**June 30, 2016**	December 31, 2015
Securities collateral pledged to us	**$ 1,489**	$ 1,742
Amount sold or repledged by us	**$ 105**	$ -

Insurance – Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were $5.1 billion and $4.9 billion at June 30, 2016 and December 31, 2015, respectively.

Other Pledges and Restrictions

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 $107 million and $47 million of stock in FHLBs at June 30, 2016 and December 31, 2015, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $3.5 billion and $1.2 billion at June 30, 2016 and December 31, 2015, respectively, associated with advances from the FHLBs.

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Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately $2.3 billion and $2.4 billion at June 30, 2016 and December 31, 2015, 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.

Short-term investments held in escrow accounts or otherwise subject to restriction as to their use were $507 million and $439 million at June 30, 2016 and December 31, 2015, respectively.

6. LENDING ACTIVITIES

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

(in millions)		June 30, 2016		December 31, 2015
Commercial mortgages*	$	22,904	$	22,067
Residential mortgages		3,307		2,758
Commercial loans, other loans and notes receivable		2,820		2,451
Life insurance policy loans		2,538		2,597
Total mortgage and other loans receivable		31,569		29,873
Allowance for credit losses		(308)		(308)
Mortgage and other loans receivable, net	$	31,261	$	29,565

* Commercial mortgages primarily represent loans for offices, retail properties and apartments, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 24 percent and 12 percent, respectively, at June 30, 2016, and 22 percent and 12 percent, respectively, at December 31, 2015).

Credit Quality of Commercial Mortgages

The following table presents debt service coverage ratios and loan-to-value ratios for commercial mortgages:

(in millions)	Debt Service Coverage Ratios[a]			
	>1.20X	1.00X - 1.20X	<1.00X	Total
June 30, 2016				
Loan-to-Value Ratios[b]				
Less than 65%	**$ 12,105**	**$ 1,873**	**$ 139**	**$ 14,117**
65% to 75%	**5,660**	**352**	**43**	**6,055**
76% to 80%	**1,445**	**164**	**84**	**1,693**
Greater than 80%	**576**	**267**	**196**	**1,039**
Total commercial mortgages	**$ 19,786**	**$ 2,656**	**$ 462**	**$ 22,904**
December 31, 2015				
Loan-to-Value Ratios[b]				
Less than 65%	$ 10,283	$ 1,704	$ 150	$ 12,137
65% to 75%	6,361	611	45	7,017
76% to 80%	1,370	169	81	1,620
Greater than 80%	646	226	421	1,293
Total commercial mortgages	$ 18,660	$ 2,710	$ 697	$ 22,067

(a) The debt service coverage ratio compares a property’s net operating income to its debt service payments, including principal and interest.

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Item 1 / NOTE 6. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(b) The loan-to-value ratio compares the current unpaid principal balance of the loan to the estimated fair value of the underlying property collateralizing the loan.

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

(dollars in millions)	Number of Loans	Class Apartments	Offices	Retail	Industrial	Hotel	Others	Total[c]	Percent of Total $
June 30, 2016									
Credit Quality Performance Indicator:									
In good standing	802	$4,342	$ 7,647	$4,995	$1,713	$2,454	$ 1,450	$ 22,601	99%
Restructured[a]	8	-	235	19	-	16	-	270	1
90 days or less delinquent	-	-	-	-	-	-	-	-	-
>90 days delinquent or in process of foreclosure	7	3	12	-	-	6	12	33	-
Total[b]	817	$4,345	$ 7,894	$5,014	$1,713	$2,476	$ 1,462	$ 22,904	100%
Allowance for credit losses:									
Specific		$ -	$ 4	$ 1	$ 6	$ 1	$ -	$ 12	-%
General		48	55	44	6	21	12	186	1
Total allowance for credit losses		$ 48	$ 59	$ 45	$ 12	$ 22	$ 12	$ 198	1%
December 31, 2015									
Credit Quality Performance Indicator:									
In good standing	830	$ 3,916	$ 7,484	$ 4,809	$ 1,902	$ 2,082	$ 1,435	$ 21,628	98%
Restructured[a]	9	-	156	25	6	16	6	209	1
90 days or less delinquent	1	-	-	4	-	-	-	4	-
>90 days delinquent or in process of foreclosure	9	3	205	-	6	-	12	226	1
Total[b]	849	$ 3,919	$ 7,845	$ 4,838	$ 1,914	$ 2,098	$ 1,453	$ 22,067	100%
Allowance for credit losses:									
Specific		$ -	$ 16	$ 1	$ 6	$ 1	$ -	$ 24	-%
General		35	47	29	8	15	13	147	1
Total allowance for credit losses		$ 35	$ 63	$ 30	$ 14	$ 16	$ 13	$ 171	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 6 to the Consolidated Financial Statements in the 2015 Annual Report.

(b) Does not reflect allowance for credit losses.

(c) Approximately all of the commercial mortgages held at such respective dates were current as to payments of principal and interest. There were no significant amounts of nonperforming commercial mortgages (defined as those loans where payment of contractual principal or interest is more than 90 days past due) during any of the periods presented.

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Item 1 / NOTE 6. LENDING ACTIVITIES

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Allowance for Credit Losses

See Note 6 to the Consolidated Financial Statements in the 2015 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:

	2016			2015		
Six Months Ended June 30, *(in millions)*	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 171**	**$ 137**	**$ 308**	$ 159	$ 112	$ 271
Loans charged off	**(13)**	**-**	**(13)**	(4)	(1)	(5)
Recoveries of loans previously charged off	**11**	**-**	**11**	3	1	4
Net charge-offs	**(2)**	**-**	**(2)**	(1)	-	(1)
Provision for loan losses	**29**	**(27)**	**2**	(9)	(3)	(12)
Other	**-**	**-**	**-**	2	2	4
Allowance, end of period	**$ 198 ***	**$ 110**	**$ 308**	$ 151 *	$ 111	$ 262

* Of the total allowance, $12 million and $30 million relate to individually assessed credit losses on $352 million and $570 million of commercial mortgages at June 30, 2016 and 2015, respectively.

During the six-month periods ended June 30, 2016 and 2015, loans with a carrying value of $84 million and $97 million, respectively, were modified in troubled debt restructurings.

7. VARIABLE INTEREST ENTITIES

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

variable interest holders to.

The primary beneficiary of a VIE is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE.

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Item 1 / NOTE 7. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet Classification and Exposure to Loss

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

(in millions)	Real Estate and Investment Entities[d]	Securitization Vehicles	Structured Investment Vehicle	Affordable Housing Partnerships	Other	Total
June 30, 2016						
Assets:						
Bonds available for sale	**$ -**	**$ 10,116**	**$ -**	**$ -**	**$ 8**	**$ 10,124**
Other bond securities	**-**	**5,254**	**334**	**-**	**6**	**5,594**
Mortgage and other loans receivable	**1**	**1,654**	**-**	**-**	**118**	**1,773**
Other invested assets	**2,043**	**427**	**-**	**2,848**	**25**	**5,343**
Other [a]	**570**	**912**	**78**	**296**	**168**	**2,024**
Total assets[b]	**$ 2,614**	**$ 18,363**	**$ 412**	**$ 3,144**	**$ 325**	**$ 24,858**
Liabilities:						
Long-term debt	**$ 1,538**	**$ 845**	**$ 52**	**$ 1,639**	**$ 6**	**$ 4,080**
Other [c]	**216**	**216**	**-**	**235**	**142**	**809**
Total liabilities	**$ 1,754**	**$ 1,061**	**$ 52**	**$ 1,874**	**$ 148**	**$ 4,889**
December 31, 2015						
Assets:						
Bonds available for sale	$ -	$ 10,309	$ -	$ -	$ 15	$ 10,324
Other bond securities	-	5,756	387	-	24	6,167
Mortgage and other loans receivable	1	1,960	-	-	132	2,093
Other invested assets	489	477	-	2,608	24	3,598
Other [a]	29	1,349	94	293	159	1,924
Total assets[b]	$ 519	$ 19,851	$ 481	$ 2,901	$ 354	$ 24,106
Liabilities:						
Long-term debt	$ -	$ 1,025	$ 53	$ 1,513	$ 6	$ 2,597
Other[c]	34	236	1	214	71	556
Total liabilities	$ 34	$ 1,261	$ 54	$ 1,727	$ 77	$ 3,153

(a) Comprised primarily of Short-term investments and Other assets at June 30, 2016 and December 31, 2015.

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

(c) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at June 30, 2016 and December 31, 2015.

(d) At June 30, 2016 and December 31, 2015, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was $119 million and $131 million, respectively.

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

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Item 1 / NOTE 7. VARIABLE INTEREST ENTITIES

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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			
(in millions)	Total VIE Assets	On-Balance Sheet[a]	Off-Balance Sheet		Total
June 30, 2016					
Real estate and investment entities[d]	**$ 425,402**	**$ 12,346**	**$ 2,166**		**$ 14,512**
Affordable housing partnerships	**4,908**	**825**	**-**		**825**
Other	**4,346**	**339**	**779**	(b)	**1,118**
Total [c]	**$ 434,656**	**$ 13,510**	**$ 2,945**		**$ 16,455**
December 31, 2015					
Real estate and investment entities[d]	$ 21,951	$ 3,072	$ 398		$ 3,470
Affordable housing partnerships	5,255	774	-		774
Other	1,110	215	1,000	(b)	1,215
Total	$ 28,316	$ 4,061	$ 1,398		$ 5,459

(a) At June 30, 2016 and December 31, 2015, $ 13.0 billion and $3.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(b) These amounts primarily represent our estimate of the maximum exposure to loss under certain insurance policies issued to VIEs if a hypothetical loss occurred to the extent of the full amount of the insured value. Our insurance policies cover defined risks and our estimate of liability is included in our insurance reserves on the balance sheet.

(c) As discussed in Note 2, on January 1, 2016, we adopted accounting guidance that resulted in an increase in the number of our investment entities classified as VIEs.

(d) Comprised primarily of hedge funds and private equity funds.

See Note 9 to the Consolidated Financial Statements in the 2015 Annual Report for additional information on VIEs.

8. 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 10 to the Consolidated Financial Statements in the 2015 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge accounting.

Our businesses 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 may include, among other things, CDSs and purchases of investments with embedded derivatives, such as equity linked notes and convertible bonds.

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The following table presents the notional amounts of our derivative instruments and the fair value of derivative assets and liabilities in the Condensed Consolidated Balance Sheets:

	June 30, 2016				December 31, 2015			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments:[(a)]								
Interest rate contracts	**$ 519**	**$ 4**	**$ 520**	**$ 3**	$ 301	$ 1	$ 725	$ 2
Foreign exchange contracts	**5,081**	**455**	**852**	**32**	2,903	207	914	56
Equity contracts	**120**	**1**	**-**	**-**	-	-	121	23
Derivatives not designated as hedging instruments:[(a)]								
Interest rate contracts	**68,331**	**5,025**	**30,817**	**3,023**	45,846	3,161	65,733	2,197
Foreign exchange contracts	**11,131**	**1,041**	**7,784**	**1,419**	9,472	559	8,900	1,148
Equity contracts	**11,046**	**278**	**7,478**	**5**	6,656	177	5,028	45
Credit contracts[(b)]	**4**	**3**	**967**	**376**	4	3	1,289	508
Other contracts[(c)]	**38,793**	**23**	**192**	**125**	37,586	23	203	69
Total derivatives, gross	**$ 135,025**	**$ 6,830**	**$ 48,610**	**$ 4,983**	$ 102,768	$ 4,131	$ 82,913	$ 4,048
Counterparty netting[(d)]		**(2,192)**		**(2,192)**		(1,268)		(1,268)
Cash collateral[(e)]		**(3,233)**		**(738)**		(1,554)		(760)
Total derivatives on condensed consolidated balance sheets[(f)]		**$ 1,405**		**$ 2,053**		$ 1,309		$ 2,020

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

(b) As of June 30, 2016 and December 31, 2015, included CDSs on super senior multi-sector CDOs with a net notional amount of $0.9 billion and $1.1 billion (fair value liability of $353 million and $483 million), respectively. The expected weighted average maturity as of June 30, 2016 is six years. Because of long-term maturities of the CDSs in the 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 portfolio. As of June 30, 2016 and December 31, 2015, there were no super senior corporate debt/CLOs remaining.

(c) Consists primarily of stable value wraps and contracts with multiple underlying exposures.

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

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

(f) Freestanding derivatives only, excludes Embedded derivatives. Derivative instrument assets and liabilities are recorded in Other Assets and Liabilities, respectively. Fair value of assets related to bifurcated Embedded derivatives was $0 at both June 30, 2016 and December 31, 2015. Fair value of liabilities related to bifurcated Embedded derivatives was $4.1 billion and $2.3 billion, respectively, at June 30, 2016 and December 31, 2015. A bifurcated Embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components.

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 Master 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 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

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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 $3.1 billion and $3.0 billion at June 30, 2016 and December 31, 2015, 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 $3.3 billion and $1.6 billion at June 30, 2016 and December 31, 2015, respectively. In the case of collateral provided to us under derivative transactions that are not subject to clearing, we generally can repledge or resell collateral.

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 governing multiple derivative transactions between 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 transferred 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 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 and cross currency swaps 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 interest rate swaps entered into with third parties as fair value hedges of fixed rate GICs attributable to changes in benchmark interest 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. For net investment hedge relationships where issued debt is used as a hedging instrument, we assess the hedge effectiveness and measure the amount of ineffectiveness based on changes in spot rates. For net investment hedge relationships that use derivatives as hedging instruments, we assess hedge effectiveness and measure hedge ineffectiveness using changes in forward rates. For the three- and six-month periods ended June 30, 2016, we recognized losses of $4 million and $9 million, respectively, and for the three- and six-month periods ended June 30, 2015, we recognized gains (losses) of $(21) million and $73 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.

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

	Gains/(Losses) Recognized in Earnings for:		Including Gains/(Losses) Attributable to:		
(in millions)	Hedging Derivatives[(a)]	Hedged Items	Hedge Ineffectiveness	Excluded Components	Other[(b)]
Three Months Ended June 30, 2016					
Interest rate contracts:					
Realized capital gains/(losses)	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Interest credited to policyholder account balances	**-**	**-**	**-**	**-**	**-**
Other income	**-**	**5**	**-**	**-**	**5**
Gain/(Loss) on extinguishment of debt	**-**	**-**	**-**	**-**	**-**
Foreign exchange contracts:					
Realized capital gains/(losses)	**389**	**(345)**	**-**	**43**	**1**
Interest credited to policyholder account balances	**-**	**-**	**-**	**-**	**-**
Other income	**-**	**5**	**-**	**-**	**5**
Gain/(Loss) on extinguishment of debt	**-**	**-**	**-**	**-**	**-**
Equity contracts:					
Realized capital gains/(losses)	**10**	**(7)**	**-**	**3**	**-**
Three Months Ended June 30, 2015					
Interest rate contracts:					
Realized capital gains/(losses)	$ -	$ -	$ -	$ -	$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	2	-	-	2
Gain/(Loss) on extinguishment of debt	-	-	-	-	-
Foreign exchange contracts:					
Realized capital gains/(losses)	(60)	73	-	13	-
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	4	-	-	4
Gain/(Loss) on extinguishment of debt	-	1	-	-	1
Equity contracts:					
Realized capital gains/(losses)	(13)	13	-	-	-

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	Gains/(Losses) Recognized in Earnings for:		Including Gains/(Losses) Attributable to:		
(in millions)	Hedging Derivatives[a]	Hedged Items	Hedge Ineffectiveness	Excluded Components	Other[b]
Six Months Ended June 30, 2016					
Interest rate contracts:					
Realized capital gains/(losses)	**$ 1**	**$ (7)**	**$ -**	**$ -**	**$ (6)**
Interest credited to policyholder account balances	**-**	**-**	**-**	**-**	**-**
Other income	**-**	**7**	**-**	**-**	**7**
Gain/(Loss) on extinguishment of debt	**-**	**-**	**-**	**-**	**-**
Foreign exchange contracts:					
Realized capital gains/(losses)	**423**	**(409)**	**-**	**14**	**-**
Interest credited to policyholder account balances	**-**	**-**	**-**	**-**	**-**
Other income	**-**	**12**	**-**	**-**	**12**
Gain/(Loss) on extinguishment of debt	**-**	**-**	**-**	**-**	**-**
Equity contracts:					
Realized capital gains/(losses)	**20**	**(19)**	**-**	**1**	**-**
Six Months Ended June 30, 2015					
Interest rate contracts:					
Realized capital gains/(losses)	$ 1	$ (1)	$ -	$ -	$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	5	-	-	5
Gain/(Loss) on extinguishment of debt	-	13	-	-	13
Foreign exchange contracts:					
Realized capital gains/(losses)	72	(56)	-	13	3
Interest credited to policyholder account balances	-	(1)	-	-	(1)
Other income	-	10	-	-	10
Gain/(Loss) on extinguishment of debt	-	17	-	-	17
Equity contracts:					
Realized capital gains/(losses)	(19)	18	-	(1)	-

a) The amounts presented do not include the periodic net coupon settlements of the derivative contract or the coupon income (expense) related to the hedged item.

(b) Represents accretion/amortization of opening fair value of the hedged item at inception of hedge relationship, amortization of basis adjustment on hedged item following the discontinuation of hedge accounting, and the release of debt basis adjustment following the repurchase of issued debt that was part of previously-discontinued fair value hedge relationship.

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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) Recognized in Earnings			
	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2016**	2015	**2016**	2015
By Derivative Type:				
Interest rate contracts	**$ 603**	$ (427)	**$ 1,373**	$ (71)
Foreign exchange contracts	**182**	(52)	**154**	270
Equity contracts	**(141)**	(31)	**(272)**	(120)
Commodity contracts	**-**	-	**-**	(1)
Credit contracts	**28**	13	**34**	160
Other contracts	**20**	(35)	**36**	(13)
Embedded derivatives	**(513)**	846	**(1,285)**	673
Total	**$ 179**	$ 314	**$ 40**	$ 898
By Classification:				
Policy fees	**$ 20**	$ 20	**$ 40**	$ 39
Net investment income	**13**	(13)	**12**	14
Net realized capital gains	**123**	305	**88**	476
Other income (losses)	**18**	8	**(112)**	370
Policyholder benefits and claims incurred	**5**	(6)	**12**	(1)
Total	**$ 179**	$ 314	**$ 40**	$ 898

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 both June 30, 2016 and December 31, 2015, was approximately $2.0 billion. The aggregate fair value of assets posted as collateral under these contracts at both June 30, 2016 and December 31, 2015, was approximately $2.1 billion.

We estimate that at June 30, 2016, based on our outstanding financial derivative transactions, a downgrade of our long-term senior debt ratings to BBB+, BBB or BBB– by Standard & Poor’s Financial

Services LLC, a subsidiary of S&P Global Inc., and/or a downgrade to Baa2 or Baa3 by Moody's Investors' Service, Inc. would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in corresponding collateral postings and termination payments in the total amount of up to approximately $137 million.

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 June 30, 2016. Factors considered in estimating the termination payments upon downgrade include current market conditions and the terms of the respective CSA provisions. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could 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.

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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 Condensed Consolidated Balance Sheets. The fair values of these hybrid securities were $5.1 billion and $5.7 billion at June 30, 2016 and December 31, 2015, respectively. These securities have par amounts of $10.6 billion and $11.2 billion at June 30, 2016 and December 31, 2015, respectively, and have remaining stated maturity dates that extend to 2052.

9. 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 losses and loss adjustment expenses. 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, AIG Financial Products Corp. and related subsidiaries (collectively 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

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and liquidity constraints relating to our securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. On May 19, 2009, a consolidated class action complaint, resulting from the consolidation of eight purported securities class actions filed between May 2008 and January 2009, was 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) in In re American International Group, Inc. 2008 Securities Litigation (the Consolidated 2008 Securities Litigation), asserting claims under the Securities Exchange Act of 1934, as amended (the Exchange Act), and claims under the Securities Act of 1933, as amended (the Securities Act), for allegedly materially false and misleading statements in AIG's public disclosures from March 16, 2006 to September 16, 2008 relating to, among other things, the Subprime Exposure Issues.

On July 15, 2014 and August 1, 2014, lead plaintiff, AIG and AIG's outside auditor accepted mediators' proposals to settle the Consolidated 2008 Securities Litigation against all defendants. On October 22, 2014, AIG made a cash payment of $960 million, which is being held in escrow until all funds are distributed. On March 20, 2015, the Court issued an Order and Final Judgment approving the class settlement and dismissing the action with prejudice, and the AIG settlement became final on June 29, 2015.

Individual Securities Litigations. Between November 18, 2011 and February 9, 2015, eleven separate, though similar, securities actions (Individual Securities Litigations) 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. Two of the actions were voluntarily dismissed. On September 10, 2015, the Southern District of New York granted AIG's motion to dismiss some of the claims in the Individual Securities Litigations in whole or in part. AIG has settled eight of the nine remaining actions.

On March 27, 2015, an additional securities action was filed in state court in Orange County, California asserting a claim against AIG pursuant to Section 11 of the Securities Act (the California Action) that is substantially similar to those in the Consolidated 2008 Securities Litigation and the remaining Individual Securities Litigation pending in the Southern District of New York. On July 10, 2015, AIG filed a motion to stay the California Action. On September 18, 2015, the court denied AIG's motion to stay the California Action. On October 23, 2015, AIG filed an appeal of the court's denial. On January 28, 2016, the California appellate court summarily denied AIG's appeal. On February 8, 2016, AIG filed a petition for review in the California Supreme Court, which was denied on March 30, 2016. On April 11, 2016, AIG filed a demurrer to dismiss all of the claims asserted in the California Action. On May 31, 2016, the court overruled AIG's demurrer in the California Action. On June 24, 2016, AIG filed a petition for writ of mandate in appellate

court of the court's decision overruling AIG's demurrer.

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

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.

In the SICO Treasury Action, 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 or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board unanimously refused SICO's demand

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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 due to our Board's refusal of SICO's demand and denied the United States' motion to dismiss SICO's direct, non-derivative 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 (the Credit Agreement Shareholder Class); 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 (the Reverse Stock Split Shareholder Class). 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. 286,908 holders of AIG Common Stock during the two class periods have opted into the classes.

On June 15, 2015, the Court of Federal Claims issued its opinion and order in the SICO Treasury Action. The Court found that the United States exceeded its statutory authority by exacting approximately 80 percent of AIG's equity in exchange for the FRBNY Credit Facility, but that AIG shareholders suffered no damages as a result. SICO argued during trial that the two classes are entitled to a total of approximately $40 billion in damages, plus interest. The Court also found that the United States was not liable to the Reverse Stock Split Class in connection with the reverse stock split vote at the June 30, 2009 annual meeting of shareholders.

On June 17, 2015, the Court of Federal Claims entered judgment stating that "the Credit Agreement Shareholder Class shall prevail on liability due to the Government's illegal exaction, but shall recover zero damages, and that the Reverse Stock Split Shareholder Class shall not prevail on liability or damages." SICO filed a notice of appeal of the July 2, 2012 dismissal of SICO's unconstitutional conditions claim, the June 26, 2013 dismissal of SICO's derivative claims, the Court's June 15, 2015 opinion and order, and the Court's June 17, 2015 judgment to the United States Court of Appeals for the Federal Circuit. The United States filed a notice of cross appeal of the Court's July 2, 2012 opinion and order denying in part its motion to dismiss, the Court's June 26, 2013 opinion and order denying its motion to dismiss SICO's direct claims, the Court's June 15, 2015 opinion and order, and the Court's June 17, 2015 judgment to the United States

Court of Appeals for the Federal Circuit.

On August 25, 2015, SICO filed its appellate brief, in which it stated SICO does not appeal the dismissal of the derivative claims it asserted on behalf of AIG.

In the Court of Federal Claims, 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.

AIG believes that any indemnification obligation would arise only if: (a) SICO prevails on its appeal and ultimately receives an award of damages; (b) the United States then commences an action against AIG seeking indemnification; and (c) the United States is successful in such an action through any appellate process. If SICO prevails on its claims and the United States seeks indemnification from AIG, AIG intends to assert defenses thereto. A reversal of the Court of Federal Claim's June 17, 2015 decision and judgment and a final determination that the United States is liable for damages, together with a final 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.

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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 and Maiden Lane III LLC 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. On May 5, 2016, the Ninth Circuit affirmed the decision of the trial court. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from this 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, and on September 12, 2014, the Alabama Supreme Court affirmed that order. AIG and the other defendants’ petition for rehearing of that decision was denied on February 27, 2015. The matter was remanded to the trial court for general discovery and adjudication of the merits. On November 24, 2015, the trial court ruled that the defendants had a duty to disclose the amount of insurance available at the settlement approval hearings and that the defendants breached that duty. The parties have settled this matter in principle, subject to formal documentation and court approval. Preliminary approval of the settlement was entered by the trial

court on June 1, 2016. The hearing on final approval is expected in the third quarter. We have accrued our current estimate of loss with respect to this litigation.

Regulatory and Related Matters

In April 2007, the National Association of Insurance Commissioners (NAIC) formed a Settlement Review Working Group, directed by the State of Indiana, to review the Workers' Compensation Residual Market Assessment portion of the settlement between AIG, the Office of the New York Attorney General, and the New York State Department of Insurance. In late 2007, the Settlement Review Working Group, under the direction of Indiana, Minnesota and Rhode Island, recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination were Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania and Rhode Island. All other states (and the District of Columbia) agreed to participate in the multi-state examination. The examination focused on legacy issues related to certain AIG entities' writing and reporting of workers compensation insurance between 1985 and 1996.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. This regulatory settlement agreement, which was agreed to by all 50 states and the District of Columbia, included, among other terms, (i) AIG's payment of $100 million in regulatory fines and penalties; (ii) AIG's payment of $46.5 million in outstanding premium taxes and assessments; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to $150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. In furtherance of the compliance plan, the agreement provided for a monitoring period from May 29, 2012 to May 29, 2014 leading up to a compliance plan examination. After the close of the monitoring period, as part of preparation for the actual conduct of the compliance plan examination, on or about October 1, 2014, AIG and the lead states agreed upon corrective action plans to address particular issues identified during the monitoring period. The compliance plan examination is ongoing. There can be no assurance that the result of the compliance plan examination will not result in a fine, have a material adverse effect on AIG's ongoing operations or lead to civil litigation.

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 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. On April 29, 2016, National Union and other AIG companies achieved a settlement in principle of civil litigation relating to the conduct of their accident and health business, subject to formal documentation and court approval. We have accrued our current estimate of loss with respect to this settlement. On May 23, 2016, the managing lead state in the multi-state examination ordered that the companies subject to the Regulatory Settlement Agreement have "complied with the terms" of the Regulatory Settlement Agreement and that no contingent fine or civil penalty would be due.

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 $3.2 billion at June 30, 2016.

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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 of structured leasing transactions 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 June 30, 2016 was $208 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.

Other

- See Note 7 to the Condensed Consolidated Financial Statements for additional discussion of commitments and guarantees associated with VIEs.

- See Note 8 to the Condensed Consolidated Financial Statements for additional disclosures about derivatives.

- See Note 14 to the Condensed Consolidated Financial Statements for additional disclosures about guarantees of outstanding debt.

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10. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Six Months Ended June 30, 2016			
Shares, beginning of year	1,906,671,492	(712,754,875)	1,193,916,617
Shares issued	-	2,017,200	2,017,200
Shares repurchased	-	(113,244,455)	(113,244,455)
Shares, end of period	1,906,671,492	(823,982,130)	1,082,689,362

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 nonbank 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 for this purpose. 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 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 28, 2016, we paid a dividend of $0.32 per share on AIG Common Stock to shareholders of record on March 14, 2016. On June 27, 2016, we paid a dividend of $0.32 per share on AIG Common Stock to shareholders of record on June 13, 2016.

See Note 18 to the Consolidated Financial Statements in the 2015 Annual Report for a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries.

Repurchase of AIG Common Stock

Our Board of Directors has authorized the repurchase of shares of AIG Common Stock through a series of actions. On February 11, 2016, our Board of Directors authorized an additional increase of $5.0 billion to its previous share repurchase authorization. As of June 30, 2016, approximately $1.8 billion remained under our share repurchase authorization. Shares may be repurchased from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise (including through the purchase of warrants). Certain of our share repurchases have been and may from time to time be effected through Exchange Act Rule 10b5-1 repurchase plans.

We repurchased approximately 113 million shares of AIG Common Stock in the six-month period ended June 30, 2016 for an aggregate purchase price of approximately $6.2 billion, and we repurchased 15 million warrants to purchase shares of AIG Common Stock for an aggregate purchase price of $263 million.

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The timing of any future repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Accumulated Other Comprehensive Income

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

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments
Balance, December 31, 2015, net of tax	**$ 696**	**$ 5,566**	**$ (2,879)**
Change in unrealized appreciation (depreciation) of investments	**(491)**	**9,499**	**-**
Change in deferred policy acquisition costs adjustment and other	**(8)**	**(682)**	**-**
Change in future policy benefits	**-**	**(1,583)**	**-**
Change in foreign currency translation adjustments	**-**	**-**	**158**
Change in net actuarial loss	**-**	**-**	**-**
Change in prior service cost	**-**	**-**	**-**
Change in deferred tax asset (liability)	**172**	**(1,398)**	**63**
Total other comprehensive income (loss)	**(327)**	**5,836**	**221**
Noncontrolling interests	**-**	**-**	**-**
Balance, June 30, 2016, net of tax	**$ 369**	**$ 11,402**	**$ (2,658)**
Balance, December 31, 2014, net of tax	$ 1,043	$ 12,327	$ (1,784)
Change in unrealized depreciation of investments	(195)	(4,843)	-
Change in deferred policy acquisition costs adjustment and other	(9)	495	-
Change in future policy benefits	92	804	-
Change in foreign currency translation adjustments	-	-	(684)

Change in net actuarial loss		-	-	-
Change in prior service credit		-	-	-
Change in deferred tax asset (liability)		4	1,092	188
Total other comprehensive income (loss)		(108)	(2,452)	(496)
Noncontrolling interests		-	-	(3)
Balance, June 30, 2015, net of tax	$	935 $	9,875 $	(2,277) $

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the other comprehensive income reclassification adjustments for the three-month periods ended June 30, 2016 and 2015, respectively:

(in millions)		Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken		Unrealized Appreciation (Depreciation) of All Other Investments		Foreign Currency Translation Adjustments		Retirement Plan Liabilities Adjustment		Total
Three Months Ended June 30, 2016										
Unrealized change arising during period	**$**	**59**	**$**	**4,277**	**$**	**290**	**$**	**(11)**	**$**	**4,615**
Less: Reclassification adjustments included in net income		**25**		**1,038**		**-**		**(4)**		**1,059**
Total other comprehensive income (loss), before income tax expense (benefit)		**34**		**3,239**		**290**		**(7)**		**3,556**
Less: Income tax expense (benefit)		**12**		**830**		**(23)**		**3**		**822**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$**	**22**	**$**	**2,409**	**$**	**313**	**$**	**(10)**	**$**	**2,734**
Three Months Ended June 30, 2015										
Unrealized change arising during period	$	35	$	(4,475)	$	(52)	$	14	$	(4,478)
Less: Reclassification adjustments included in net income		46		99		-		(23)		122
Total other comprehensive income (loss), before income tax expense (benefit)		(11)		(4,574)		(52)		37		(4,600)
Less: Income tax expense (benefit)		25		(1,583)		(15)		10		(1,563)
Total other comprehensive income (loss), net of income tax expense (benefit)	$	(36)	$	(2,991)	$	(37)	$	27	$	(3,037)
Six Months Ended June 30, 2016										
Unrealized change arising during period	**$**	**(399)**	**$**	**7,917**	**$**	**158**	**$**	**(10)**	**$**	**7,666**
Less: Reclassification adjustments included in net income		**100**		**683**		**-**		**(8)**		**775**

Total other comprehensive income (loss), before income tax expense (benefit)		**(499)**	**7,234**	**158**	**(2)**	**6,891**
Less: Income tax expense (benefit)		**(172)**	**1,398**	**(63)**	**6**	**1,169**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$**	**(327) $**	**5,836 $**	**221 $**	**(8) $**	**5,722**
Six Months Ended June 30, 2015						
Unrealized change arising during period	$	(57) $	(2,968) $	(684) $	21 $	(3,688)
Less: Reclassification adjustments included in net income		55	576	-	(47)	584
Total other comprehensive income (loss), before income tax expense (benefit)		(112)	(3,544)	(684)	68	(4,272)
Less: Income tax expense (benefit)		(4)	(1,092)	(188)	12	(1,272)
Total other comprehensive income (loss), net of income tax expense (benefit)	$	(108) $	(2,452) $	(496) $	56 $	(3,000)

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Item 1 / NOTE 10. 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 June 30,		Affected Line Item in the Condensed Consolidated Statements of Income
(in millions)	**2016**	2015	
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken			
Investments	**$ 25**	$ 46	Other realized capital gains
Total	**25**	46	
Unrealized appreciation (depreciation) of all other investments			
Investments	**1,074**	112	Other realized capital gains
Deferred acquisition costs adjustment	**(36)**	(30)	Amortization of deferred policy acquisition costs
Future policy benefits	**-**	17	Policyholder benefits and losses incurred
Total	**1,038**	99	
Change in retirement plan liabilities adjustment			
Prior - service cost	**5**	11	*
Actuarial losses	**(9)**	(34)	*
Total	**(4)**	(23)	
Total reclassifications for the period	**$ 1,059**	$ 122	

	Amount Reclassified from Accumulated Other Comprehensive Income Six Months Ended June 30,		Affected Line Item in the Condensed Consolidated Statements of Income
(in millions)	**2016**	2015	

Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken				
Investments	$	**100**	$ 55	Other realized capital gains
Total		**100**	55	
Unrealized appreciation (depreciation) of all other investments				
Investments		**661**	624	Other realized capital gains
Deferred acquisition costs adjustment		**22**	(65)	Amortization of deferred policy acquisition costs
Future policy benefits		**-**	17	Policyholder benefits and losses incurred
Total		**683**	576	
Change in retirement plan liabilities adjustment				
Prior - service cost		**9**	23	*
Actuarial losses		**(17)**	(70)	*
Total		**(8)**	(47)	-
Total reclassifications for the period	$	**775**	$ 584	-

* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 12 to the Condensed Consolidated Financial Statements.

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Item 1 / NOTE 11. EARNINGS PER SHARE (EPS)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11. 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 June 30,		Six Months Ended June 30,	
(dollars in millions, except per share data)	**2016**	2015	**2016**	2015
Numerator for EPS:				
Income from continuing operations	**$ 1,934**	$ 1,775	**$ 1,778**	$ 4,251
Less: Net income (loss) from continuing operations attributable to noncontrolling interests	**11**	(9)	**(9)**	-
Income attributable to AIG common shareholders from continuing operations	**1,923**	1,784	**1,787**	4,251
Income (loss) from discontinued operations, net of income tax expense	**(10)**	16	**(57)**	17
Net income attributable to AIG common shareholders	**1,913**	1,800	**1,730**	4,268
Denominator for EPS:				
Weighted average shares outstanding - basic	**1,113,587,927**	1,329,157,366	**1,135,068,193**	1,347,452,833
Dilutive shares	**26,458,046**	36,233,065	**28,021,555**	28,873,138
Weighted average shares outstanding - diluted*	**1,140,045,973**	1,365,390,431	**1,163,089,748**	1,376,325,971
Income per common share attributable to AIG:				
Basic:				
Income from continuing operations	**$ 1.73**	$ 1.34	**$ 1.57**	$ 3.16
Income (loss) from discontinued operations	**$ (0.01)**	$ 0.01	**$ (0.05)**	$ 0.01
Net income attributable to AIG	**$ 1.72**	$ 1.35	**$ 1.52**	$ 3.17

Diluted:								
Income from continuing operations	**$**	**1.69**	$	1.31	**$**	**1.54**	$	3.09
Income (loss) from discontinued operations	**$**	**(0.01)**	$	0.01	**$**	**(0.05)**	$	0.01
Net income attributable to AIG	**$**	**1.68**	$	1.32	**$**	**1.49**	$	3.10

* Dilutive shares include our share based employee compensation plans and a weighted average portion of the warrants issued to AIG shareholders as part of AIG's recapitalization in January 2011. The number of shares excluded from diluted shares outstanding was 0.1 million and 0.3 million for the three- and six-month periods ended June 30, 2016, respectively, and 0.2 million and 0.3 million for the three- and six-month periods ended June 30, 2015, respectively, because the effect of including those shares in the calculation would have been anti-dilutive.

12. EMPLOYEE BENEFITS

We sponsor various defined benefit pension plans, post-retirement medical and life insurance plans for eligible employees and retirees in the U.S. and certain non-U.S. countries. Effective January 1, 2016, the U.S. defined benefit pension plans were frozen for current participants and closed to new hires. Accordingly, compensation-based benefits are no longer credited to the cash balance accounts of plan participants.

Beginning in 2016, interest cost for pension and postretirement benefits for our U.S. plans and largest non-U.S. plans is measured by applying the specific spot rates along the yield curve to the plans' corresponding discounted cash flows that

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Item 1 / NOTE 12. EMPLOYEE BENEFITS

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comprise the obligation (the Spot Rate Approach). This method provides a more precise measurement of interest cost by aligning the timing of the plans' discounted cash flows to the corresponding spot rates on the yield curve. Previously, we measured interest cost utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligations.

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

	Pension			Postretirement		
(in millions)	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended June 30, 2016						
Components of net periodic benefit cost:						
Service cost	**$ 5**	**$ 7**	**$ 12**	**$ -**	**$ 1**	**$ 1**
Interest cost	**45**	**5**	**50**	**2**	**1**	**3**
Expected return on assets	**(74)**	**(6)**	**(80)**	**-**	**-**	**-**
Amortization of prior service credit	**-**	**-**	**-**	**(3)**	**-**	**(3)**
Amortization of net loss	**6**	**2**	**8**	**-**	**-**	**-**
Curtailment gain	**-**	**(1)**	**(1)**	**-**	**-**	**-**
Net periodic benefit (income) cost	**$ (18)**	**$ 7**	**$ (11)**	**$ (1)**	**$ 2**	**$ 1**
Three Months Ended June 30, 2015						
Components of net periodic benefit cost:						
Service cost	$ 51	$ 10	$ 61	$ 1	$ 1	$ 2
Interest cost	55	6	61	2	-	2
Expected return on assets	(72)	(6)	(78)	-	-	-
Amortization of prior service credit	(8)	-	(8)	(2)	-	(2)
Amortization of net loss	33	2	35	-	-	-
Curtailment gain	-	(1)	(1)	-	-	-
Net periodic benefit cost	$ 59	$ 11	$ 70	$ 1	$ 1	$ 2
Six Months Ended June 30, 2016						
Components of net periodic benefit cost:						
Service cost	**$ 9**	**$ 15**	**$ 24**	**$ 1**	**$ 2**	**$ 3**
Interest cost	**91**	**10**	**101**	**3**	**2**	**5**
Expected return on assets	**(147)**	**(13)**	**(160)**	**-**	**-**	**-**
Amortization of prior service credit	**-**	**-**	**-**	**(5)**	**-**	**(5)**
Amortization of net loss	**12**	**4**	**16**	**-**	**-**	**-**
Curtailment gain	**-**	**(3)**	**(3)**	**-**	**-**	**-**

Net periodic benefit (income) cost	**$ (35)**	**$ 13**	**$ (22)**	**$ (1)**	**$ 4**	**$ 3**
Six Months Ended June 30, 2015						
Components of net periodic benefit cost:						
Service cost	$ 103	$ 21	$ 124	$ 3	$ 2	$ 5
Interest cost	110	12	122	4	1	5
Expected return on assets	(144)	(12)	(156)	-	-	-
Amortization of prior service credit	(16)	(1)	(17)	(5)	-	(5)
Amortization of net loss	65	5	70	-	-	-
Curtailment gain	-	(1)	(1)	-	-	-
Net periodic benefit cost	$ 118	$ 24	$ 142	$ 2	$ 3	$ 5

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Item 1 / NOTE 13. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13. 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 June 30, 2016, the effective tax rate on income from continuing operations was 32.3 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 reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, partially offset by increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions.

For the six-month period ended June 30, 2016, the effective tax rate on income from continuing operations was 32.8 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, the impact of an agreement reached with the Internal Revenue Service (IRS) related to certain tax issues under audit and reclassifications from accumulated other comprehensive income to income from continuing operations related to the disposal of available for sale securities, partially offset by a tax charge and related interest associated with increases in uncertain tax positions related to cross border financing transactions.

For the three- and six-month periods ended June 30, 2015, the effective tax rate on income from continuing operations was 30.4 percent and 32.8 percent, respectively. The effective tax rate on income from continuing operations in both periods differs from the statutory tax rate of 35 percent primarily due to tax benefits associated with tax exempt interest income, reclassifications from accumulated other comprehensive income to income from continuing operations related to the deferred tax asset valuation

allowance previously released to accumulated other comprehensive income, and changes in the deferred tax asset valuation allowance associated with certain foreign jurisdictions. For the three-month period ended June 30, 2015, there was a decrease in the deferred tax asset valuation allowance associated with certain foreign jurisdictions primarily attributable to changes in projections of future taxable income. The six-month period ended June 30, 2015 includes an increase in the deferred tax asset valuation allowance primarily attributable to the effects of changes in the Japanese tax law enacted on March 31, 2015, partially offset by changes in projections of future taxable income.

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.

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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.

In performing our assessment of the recoverability of the deferred tax asset under this framework, we consider tax laws governing the utilization of the net operating loss, capital loss and foreign tax credit carryforwards in each applicable jurisdiction. Under U.S. tax law, a company generally must use its net operating loss carryforwards before it can use its foreign tax credit carryforwards, even though the carryforward period for the foreign tax credit is shorter than for the net operating loss. Our U.S. federal consolidated income tax group includes both life companies and non-life companies. While the U.S. taxable income of our non-life companies can be offset by the net operating loss carryforwards, only a portion (no more than 35 percent) of the U.S. taxable income of our life companies can be offset by those net operating loss carryforwards. The remaining tax liability of our life companies can be offset by the foreign tax credit carryforwards. Accordingly, we utilize both the net operating loss and foreign tax credit carryforwards concurrently which enables us to realize our tax attributes prior to expiration. As of June 30, 2016, based on all available evidence, it is more likely than not that the U.S. net operating loss and foreign tax credit carryforwards will be utilized prior to expiration and, thus, no valuation allowance has been established.

Estimates of future taxable income, including income generated from prudent and feasible actions and tax planning strategies could change in the near term, perhaps materially, which may require us to consider any potential impact to our assessment of the recoverability of the deferred tax asset. Such potential impact could be material to our consolidated financial condition or results of operations for an individual reporting period.

For the three- and six-month periods ended June 30, 2016, recent changes in market conditions, including falling interest rates, impacted the unrealized tax gains and losses in the U.S. Life Insurance Companies' available for sale securities portfolio, resulting in a net deferred tax liability related to net unrealized tax capital gains. Accordingly, as of June 30, 2016, based on all available evidence, we concluded that the valuation allowance should be released. As a result, for the three- and six-month periods ended June 30, 2016, we released $350 million and $1.2 billion, respectively, of valuation allowance associated with the unrealized tax losses in the U.S. Life Insurance Companies' available for sale securities portfolio, all of which was recognized in other comprehensive income.

During the three- and six-month periods ended June 30, 2016, we recognized a net increase of $35 million and $1 million, respectively, in our deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to factors such as cumulative losses in recent years and the inability to demonstrate profits within the specific jurisdictions over the relevant carryforward periods. The six-month period ended June 30, 2016 also included a decrease in our deferred tax asset valuation allowance resulting from changes in projections of taxable income.

Tax Examinations and Litigation

On August 1, 2012, we filed a motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions in the Southern District of New York. On March 29, 2013, the Southern District of New York denied our motion. 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. On September 9, 2015, the Second Circuit affirmed

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the decision of the Southern District of New York. On October 13, 2015, we filed a petition for a writ of certiorari to the U.S Supreme Court. On March 7, 2016 the U.S. Supreme Court denied our petition for certiorari. As a result, the case will be remanded back to the Southern District of New York for a jury trial.

We will vigorously defend our position and continue to believe that we have adequate reserves for any liability that could result from these government actions. We continue to monitor legal and other developments in this area, including recent decisions affecting other taxpayers, and evaluate their effect, if any, on our position.

Accounting for Uncertainty in Income Taxes

At June 30, 2016 and December 31, 2015, our unrecognized tax benefits, excluding interest and penalties, were $4.5 billion and $4.3 billion, respectively. The six-month period ended June 30, 2016, reflects an increase in amounts associated with cross border financing transactions, partially offset by benefits realized due to an agreement reached with the IRS related to certain tax issues under audit. At both June 30, 2016 and December 31, 2015, our unrecognized tax benefits related to tax positions that, if recognized, would not affect the effective tax rate because they relate to such factors as the timing, rather the permissibility, of the deduction were $0.1 billion. Accordingly, at June 30, 2016 and December 31, 2015, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.4 billion and $4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At both June 30, 2016 and December 31, 2015, we had accrued liabilities of $1.2 billion for the payment of interest (net of the federal benefit) and penalties. For the six-month period ended June 30, 2016, we accrued benefits of $48 million for the payment of interest and penalties primarily related to benefits associated with an agreement reached with the IRS related to certain tax issues under audit, partially offset by an increase associated with cross border financing transactions. For the six-month period ended June 30, 2015, we accrued benefits of $15 million.

We regularly evaluate adjustments proposed by taxing authorities. At June 30, 2016, 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

The following Condensed Consolidating Financial Statements reflect the results of 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

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Cons
June 30, 2016					
Assets:					
Short-term investments	$ 3,727	$ -	$ 12,769	$ (4,162)	$
Other investments[a]	5,790	-	332,543	-	
Total investments	9,517	-	345,312	(4,162)	
Cash	12	6	1,766	-	
Loans to subsidiaries[b]	35,007	-	395	(35,402)	
Investment in consolidated subsidiaries[b]	58,001	33,137	-	(91,138)	
Other assets, including deferred income taxes	24,455	132	136,529	(3,218)	
Total assets	$ 126,992	$ 33,275	$ 484,002	$ (133,920)	$
Liabilities:					
Insurance liabilities	$ -	$ -	$ 278,518	$ -	$
Long-term debt	22,208	641	10,480	-	
Other liabilities, including intercompany balances[a]	14,444	65	101,009	(7,553)	
Loans from subsidiaries[b]	394	-	35,008	(35,402)	
Total liabilities	37,046	706	425,015	(42,955)	
Total AIG shareholders' equity	89,946	32,569	58,396	(90,965)	
Non-redeemable noncontrolling interests	-	-	591	-	
Total equity	89,946	32,569	58,987	(90,965)	
Total liabilities and equity	$ 126,992	$ 33,275	$ 484,002	$ (133,920)	$

December 31, 2015					
Assets:					
Short-term investments	$ 4,042	$ -	$ 9,637	$ (3,547)	$
Other investments[a]	7,425	-	320,797	-	
Total investments	11,467	-	330,434	(3,547)	
Cash	34	116	1,479	-	
Loans to subsidiaries[b]	35,927	-	578	(36,505)	
Investment in consolidated subsidiaries[b]	51,151	30,239	-	(81,390)	
Other assets, including deferred income taxes	23,299	258	135,690	(2,388)	
Total assets	$ 121,878	$ 30,613	$ 468,181	$ (123,830)	$
Liabilities:					
Insurance liabilities	$ -	$ -	$ 271,645	$ -	$
Long-term debt	19,777	704	8,768	-	
Other liabilities, including intercompany balances[a]	11,869	201	99,777	(6,109)	
Loans from subsidiaries[b]	574	3	35,928	(36,505)	
Total liabilities	32,220	908	416,118	(42,614)	
Total AIG shareholders' equity	89,658	29,705	51,511	(81,216)	
Non-redeemable noncontrolling interests	-	-	552	-	
Total equity	89,658	29,705	52,063	(81,216)	
Total liabilities and equity	$ 121,878	$ 30,613	$ 468,181	$ (123,830)	$

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

(b) Eliminated in consolidation.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Income

(in millions)		American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Re
Three Months Ended June 30, 2016					
Revenues:					
Equity in earnings of consolidated subsidiaries*	**$**	**2,168$**	**888$**	**-$**	
Other income		**127**	**-**	**14,843**	
Total revenues		**2,295**	**888**	**14,843**	
Expenses:					
Interest expense		**250**	**13**	**59**	
Loss on extinguishment of debt		**-**	**-**	**7**	
Other expenses		**257**	**7**	**11,520**	
Total expenses		**507**	**20**	**11,586**	
Income (loss) from continuing operations before income tax expense (benefit)		**1,788**	**868**	**3,257**	
Income tax expense (benefit)		**(125)**	**(7)**	**1,056**	
Income (loss) from continuing operations		**1,913**	**875**	**2,201**	
Loss from discontinued operations, net of income taxes		**-**	**-**	**(10)**	
Net income (loss)		**1,913**	**875**	**2,191**	
Less:					
Net income from continuing operations attributable to noncontrolling interests		**-**	**-**	**11**	
Net income (loss) attributable to AIG	**$**	**1,913$**	**875$**	**2,180$**	
Three Months Ended June 30, 2015					
Revenues:					
Equity in earnings of consolidated subsidiaries*	$	2,319$	749$	-$	
Other income		14	-	15,916	
Total revenues		2,333	749	15,916	
Expenses:					
Interest expense		267	14	65	

Loss on extinguishment of debt		297		-		45	
Other expenses		301		47		12,343	
Total expenses		865		61		12,453	
Income (loss) from continuing operations before income tax expense (benefit)		1,468		688		3,463	
Income tax expense (benefit)		(333)		(20)		1,129	
Income (loss) from continuing operations		1,801		708		2,334	
Income (loss) from discontinued operations, net of income taxes		(1)		-		17	
Net income (loss)		1,800		708		2,351	
Less:							
Net loss from continuing operations attributable to noncontrolling interests		-		-		(9)	
Net income (loss) attributable to AIG	$	1,800	$	708	$	2,360	$

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Re
Six Months Ended June 30, 2016				
Revenues:				
Equity in earnings of consolidated subsidiaries*	$ 1,224	$ (795)	$ -	$
Other income	64	5	26,881	
Total revenues	1,288	(790)	26,881	
Expenses:				
Interest expense	494	27	108	
Loss on extinguishment of debt	77	-	13	
Other expenses	448	14	23,125	
Total expenses	1,019	41	23,246	
Income (loss) from continuing operations before income tax expense (benefit)	269	(831)	3,635	
Income tax expense (benefit)	(1,462)	(13)	2,341	
Income (loss) from continuing operations	1,731	(818)	1,294	
Loss from discontinued operations, net of income taxes	(1)	-	(56)	
Net income (loss)	1,730	(818)	1,238	
Less:				
Net loss from continuing operations attributable to noncontrolling interests	-	-	(9)	
Net income (loss) attributable to AIG	$ 1,730	$ (818)	$ 1,247	$
Six Months Ended June 30, 2015				
Revenues:				
Equity in earnings of consolidated subsidiaries*	$ 5,076	$ 1,522	$ -	$
Other income	164	-	31,830	
Total revenues	5,240	1,522	31,830	
Expenses:				
Interest expense	556	30	130	
Loss on extinguishment of debt	358	-	45	
Other expenses	547	42	23,952	
Total expenses	1,461	72	24,127	
Income (loss) from continuing operations before income tax expense (benefit)	3,779	1,450	7,703	

Income tax expense (benefit)		(490)	(63)		2,630	
Income (loss) from continuing operations		4,269	1,513		5,073	
Income (loss) from discontinued operations, net of income taxes		(1)	-		18	
Net income (loss)		4,268	1,513		5,091	
Less:						
Net income (loss) from continuing operations attributable to noncontrolling interests		-	-		-	
Net income (loss) attributable to AIG	$	4,268	$ 1,513	$	5,091	$

* Eliminated in consolidation.

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Item 1 / NOTE 14. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Comprehensive Income

(in millions)		American International Group, Inc. (As Guarantor)		AIGLH		Other Subsidiaries	Recla... E...
Three Months Ended June 30, 2016							
Net income (loss)	**$**	**1,913**	**$**	**875**	**$**	**2,191**	**$**
Other comprehensive income (loss)		**2,734**		**7,734**		**(7,006)**	
Comprehensive income (loss)		**4,647**		**8,609**		**(4,815)**	
Total comprehensive income attributable to noncontrolling interests		**-**		**-**		**11**	
Comprehensive income (loss) attributable to AIG	**$**	**4,647**	**$**	**8,609**	**$**	**(4,826)**	**$**
Three Months Ended June 30, 2015							
Net income (loss)	$	1,800	$	708	$	2,351	$
Other comprehensive income (loss)		(3,037)		3,582		53,694	
Comprehensive income (loss)		(1,237)		4,290		56,045	
Total comprehensive loss attributable to noncontrolling interests		-		-		(9)	
Comprehensive income (loss) attributable to AIG	$	(1,237)	$	4,290	$	56,054	$
Six Months Ended June 30, 2016							
Net income (loss)	**$**	**1,730**	**$**	**(818)**	**$**	**1,238**	**$**
Other comprehensive income (loss)		**5,722**		**7,260**		**48,548**	
Comprehensive income (loss)		**7,452**		**6,442**		**49,786**	
Total comprehensive loss attributable to noncontrolling interests		**-**		**-**		**(9)**	
Comprehensive income (loss) attributable to AIG	**$**	**7,452**	**$**	**6,442**	**$**	**49,795**	**$**
Six Months Ended June 30, 2015							
Net income (loss)	$	4,268	$	1,513	$	5,091	$
Other comprehensive income (loss)		(2,997)		4,490		52,633	
Comprehensive income (loss)		1,271		6,003		57,724	
Total comprehensive loss attributable to noncontrolling interests		-		-		(3)	
Comprehensive income (loss) attributable to AIG	$	1,271	$	6,003	$	57,727	$

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Item 1 / NOTE 14. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries*	Reclassifications and Eliminations*
Six Months Ended June 30, 2016				
Net cash (used in) provided by operating activities	**$ 2,734**	**$ 680**	**$ (1,022)**	**$ (1,821)**
Cash flows from investing activities:				
Sales of investments	**1,944**	**-**	**39,689**	**(6,846)**
Purchase of investments	**(606)**	**-**	**(40,877)**	**6,846**
Loans to subsidiaries - net	**1,050**	**-**	**180**	**(1,230)**
Contributions from (to) subsidiaries - net	**880**	**-**	**-**	**(880)**
Net change in restricted cash	**-**	**-**	**(78)**	**-**
Net change in short-term investments	**(733)**	**-**	**(1,022)**	**-**
Other, net	**(298)**	**-**	**1,717**	**-**
Net cash (used in) provided by investing activities	**2,237**	**-**	**(391)**	**(2,110)**
Cash flows from financing activities:				
Issuance of long-term debt	**3,832**	**-**	**2,856**	**-**
Repayments of long-term debt	**(1,421)**	**(63)**	**(1,435)**	**-**
Purchase of common stock	**(6,248)**	**-**	**-**	**-**
Intercompany loans - net	**(180)**	**(3)**	**(1,047)**	**1,230**
Cash dividends paid	**(713)**	**(724)**	**(1,097)**	**1,821**
Other, net	**(263)**	**-**	**2,385**	**880**
Net cash (used in) provided by financing activities	**(4,993)**	**(790)**	**1,662**	**3,931**
Effect of exchange rate changes on cash	**-**	**-**	**38**	**-**
Change in cash	**(22)**	**(110)**	**287**	**-**
Cash at beginning of year	**34**	**116**	**1,479**	**-**
Cash at end of period	**$ 12**	**$ 6**	**$ 1,766**	**$ -**
Six Months Ended June 30, 2015				
Net cash (used in) provided by operating activities	$ 2,230	$ 527	$ 2,581	$ (4,845)
Cash flows from investing activities:				
Sales of investments	4,703	-	36,970	(2,667)

Purchase of investments	(942)	-	(32,708)	2,667
Loans to subsidiaries - net	189	-	130	(319)
Contributions from (to) subsidiaries - net	-	-	-	-
Net change in restricted cash	-	-	1,462	-
Net change in short-term investments	(2,093)	-	(600)	-
Other, net	(65)	-	(1,441)	-
Net cash (used in) provided by investing activities	1,792	-	3,813	(319)
Cash flows from financing activities:				
Issuance of long-term debt	2,342	-	432	-
Repayments of long-term debt	(2,016)	(114)	(1,571)	-
Purchase of common stock	(3,743)	-	-	-
Intercompany loans - net	(130)	-	(189)	319
Cash dividends paid	(335)	(500)	(4,345)	4,845
Other, net	(75)	-	(486)	-
Net cash (used in) provided by financing activities	(3,957)	(614)	(6,159)	5,164
Effect of exchange rate changes on cash	-	-	(34)	-

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Item 1 / NOTE 14. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Change in cash	65	(87)	201	-	179
Cash at beginning of year	26	91	1,641	-	1,758
Cash at end of period	$ 91	$ 4	$ 1,842	$ -	$ 1,937

Supplementary Disclosure of Condensed Consolidating Cash Flow Information

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries*	Reclassifications and Eliminations*	C
Cash (paid) received during the 2016 period for:					
Interest:					
Third party	**$ (515)**	**$ (27)**	**$ (108)**	**$ -**	**$**
Intercompany	**-**	**-**	**-**	**-**	
Taxes:					
Income tax authorities	**$ (7)**	**$ -**	**$ (110)**	**$ -**	**$**
Intercompany	**629**	**-**	**(629)**	**-**	
Cash (paid) received during the 2015 period for:					
Interest:					
Third party	$ (585)	$ (32)	$ (143)	$ -	$
Intercompany	-	-	-	-	
Taxes:					
Income tax authorities	$ (6)	$ -	$ (332)	$ -	$
Intercompany	1,249	-	(1,249)	-	

American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:

Six Months Ended June 30,		
(in millions)	**2016**	2015
Intercompany non-cash financing and investing activities:		

Capital contributions	**$ 2,915**	$ 111
Dividends received in the form of securities	**1,790**	1,551
Return of capital	**1**	-
Fixed maturity securities received in exchange for equity securities	**440**	-
Non-cash financing/investing activities:		
Consideration received from sale of shares of AerCap	**-**	500

15. SUBSEQUENT EVENTS

Dividends Declared and Increase in Share Repurchase Authorization

On August 2, 2016, our Board of Directors declared a cash dividend on AIG Common Stock of $0.32 per share, payable on September 29, 2016 to shareholders of record on September 15, 2016.

On August 2, 2016, our Board of Directors authorized an additional increase to its previous repurchase authorization of AIG Common Stock of $3.0 billion, resulting in an aggregate remaining authorization on such date of approximately $4.0 billion.

ITEM 2 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we use certain terms and abbreviations, which are summarized in the Glossary and Acronyms.

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included throughout this Quarterly Report on Form 10-Q, the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2016 and in our Annual Report on Form 10-K for the year ended December 31, 2015 (2015 Annual Report) to assist readers seeking additional information related to a particular subject.

In this Quarterly Report on Form 10-Q, unless otherwise mentioned or unless the context indicates otherwise, we use the terms "AIG," the "Company," "we," "us" and "our" to refer to American International Group, Inc., a Delaware corporation, and its consolidated subsidiaries. We use the term "AIG Parent" to refer solely to American International Group, Inc., and not to any of its consolidated subsidiaries.

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of American International Group, Inc. (AIG) may from time to time make, projections, goals, assumptions and statements that may constitute "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections, goals, assumptions and statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. These projections, goals, assumptions and statements include statements preceded by, followed by or including words such as "will," "believe," "anticipate," "expect," "intend," "plan," "focused on achieving," "view," "target," "goal" or "estimate." These projection goals, assumptions and statements may address, among other things, our:

- exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers, sovereign bond issuers, the energy sector and currency exchange rates;
- exposure to European governments and European financial institutions;
- strategy for risk management;
- sales of businesses;
- restructuring of business operations;
- generation of deployable capital;
- strategies to increase return on equity and earnings per share;
- strategies to grow net investment income, efficiently manage capital, grow book value per common share, and reduce expenses;
- anticipated restructuring charges and annual cost savings;
- anticipated business or asset divestitures or monetizations;
- anticipated organizational and business changes;
- strategies for customer retention, growth, product development, market position, financial results and reserves; and
- subsidiaries' revenues and combined ratios.

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It is possible that our actual results and financial condition will differ, possibly materially, from the results and financial condition indicated in these projections, goals, assumptions and statements. Factors that could cause our actual results to differ, possibly materially, from those in the specific projections, goals, assumptions and statements include:

- changes in market conditions;
- negative impacts on customers, business partners and other stakeholders;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer (G SII);
- concentrations in our investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- our ability to successfully manage run-off insurance portfolios;
- our ability to successfully reduce costs and expenses and make business and organizational changes without negatively impacting client relationships or our competitive position;
- our ability to successfully dispose of, or monetize, businesses or assets;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings; and
- such other factors discussed in:
- Part I, Item 2. MD&A and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10 Q;
- Part I, Item 2. MD&A and Part II, Item 1A. Risk Factors of the Quarterly Report on Form 10 Q for the quarterly period ended March 31, 2016; and
- Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A of our 2015 Annual Report.

We are not under any obligation (and expressly disclaim any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

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Item 2 / USE OF NON-GAAP MEASURES

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are "non GAAP financial measures" under SEC rules and regulations. GAAP is the acronym for "accounting principles generally accepted in the United States." The non GAAP financial measures we present may not be comparable to similarly named measures reported by other companies.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (AOCI) and Book Value Per Common Share Excluding AOCI and Deferred Tax Assets (DTA) are used to show the amount of our net worth on a per-share basis. We believe these measures are useful to investors because they eliminate items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. These measures also eliminate the asymmetrical impact resulting from changes in fair value of our available for sale securities portfolio wherein there is largely no offsetting impact for certain related insurance liabilities. We exclude deferred tax assets representing U.S. tax attributes related to net operating loss carryforwards and foreign tax credits as they have not yet been utilized. Amounts for interim periods are estimates based on projections of full-year attribute utilization. As net operating loss carryforwards and foreign tax credits are utilized, the portion of the DTA utilized is included in Book Value Per Common Share. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding. Book Value Per Common Share Excluding AOCI and DTA is derived by dividing Total AIG shareholders' equity, excluding AOCI and DTA, by Total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in the Executive Overview section of this MD&A.

Return on Equity – After-tax Operating Income Excluding AOCI and Return on Equity – After-tax Operating Income Excluding AOCI and DTA are used to show the rate of return on shareholders' equity. We believe these measures are useful to investors because they eliminate items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio, foreign currency translation adjustments and U.S. tax attribute deferred tax assets. These measures also eliminate the asymmetrical impact resulting from changes in fair value of our available for sale securities portfolio wherein there is largely no offsetting impact for certain related insurance liabilities. We exclude deferred tax assets representing U.S. tax attributes related to net operating loss carryforwards and foreign tax credits as they have not yet been utilized. Amounts for interim periods are estimates based on projections of full-year attribute utilization. As net operating loss carryforwards and foreign tax credits are utilized, the portion of the DTA utilized is included in Return on Equity. Return on Equity – After-tax Operating Income Excluding AOCI is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI. Return on Equity – After-tax Operating Income Excluding AOCI and DTA is derived by dividing actual or annualized after-tax operating income attributable to AIG by average AIG shareholders' equity, excluding average AOCI and DTA. The reconciliation to return on equity, the most comparable GAAP measure, is presented in the

Executive Overview section of this MD&A.

We use the following operating performance measures because we believe they enhance the understanding of the underlying profitability of continuing operations and trends of our business segments. We believe they also allow for more meaningful comparisons with our insurance competitors. When we use these measures, reconciliations to the most comparable GAAP measure are provided in the Results of Operations section of this MD&A on a consolidated basis.

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Item 2 / USE OF NON-GAAP MEASURES

After-tax operating income attributable to AIG is derived by excluding the following items from net income attributable to AIG. These items generally fall into one or more of the following broad categories: legacy matters having no relevance to our current businesses or operating performance; adjustments to enhance transparency to the underlying economics of transactions; and measures that we believe to be common to the industry. For example, certain ratios and other metrics described below:

• deferred income tax valuation allowance releases and charges; • changes in fair value of securities used to hedge guaranteed living benefits; • changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses; • other income and expense — net, related to Corporate and Other run-off insurance lines; • loss on extinguishment of debt; • net realized capital gains and losses; • non qualifying derivative hedging activities, excluding net realized capital gains and losses;	• income or loss from discontinued operations; • income and loss from divested businesses, including: • gain on the sale of International Lease Finance Corporation (ILFC); and • certain post-acquisition transaction expenses incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects; • legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments; • non-operating litigation reserves and settlements; • reserve development related to non-operating run-off insurance business; and • restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

Operating revenue excludes Net realized capital gains (losses), income from non-operating litigation settlements (included in Other income for GAAP purposes) and changes in fair value of securities used to hedge guaranteed living benefits (included in Net investment income for GAAP purposes).

We use the following operating performance measures within our Commercial Insurance and Consumer Insurance reportable segments as well as Corporate and Other.

- ***Commercial Insurance: Property Casualty and Mortgage Guaranty; Consumer Insurance: Personal Insurance***

- **Pre tax operating income:** includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, other income and expense — net, and non-operating litigation reserves and settlements. Underwriting income and loss is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, acquisition expenses and general operating expenses.

- **Ratios:** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of losses and loss adjustment expenses, and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. Our ratios are calculated using the relevant information calculated under GAAP, and thus may not be comparable to similar ratios calculated for regulatory reporting purposes.

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Item 2 / USE OF NON-GAAP MEASURES

The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

• **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Natural catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each. Catastrophes also include certain man-made events, such as terrorism and civil disorders, that meet the $10 million threshold. We believe the as adjusted ratios are meaningful measures of our underwriting results on an on-going basis as they exclude catastrophes and the impact of reserve discounting which are outside of management's control. We also exclude prior year development to provide transparency related to current accident year results.

• ***Commercial Insurance: Institutional Markets; Consumer Insurance: Retirement and Life***

• **Pre tax operating income** is derived by excluding the following items from pre tax income:

• changes in fair value of securities used to hedge guaranteed living benefits;	• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; and
• net realized capital gains and losses;	• non-operating litigation reserves and settlements.

• **Premiums and deposits:** includes direct and assumed amounts received and earned on traditional life insurance policies, group benefit policies and life contingent payout annuities, as well as deposits received on universal life, investment type annuity contracts and mutual funds.

• ***Corporate and Other — Pre tax operating income and loss*** is derived by excluding the following items from pre tax income and loss:

• loss on extinguishment of debt; • net realized capital gains and losses; • changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; • income and loss from divested businesses,	• net gain or loss on sale of divested businesses, including: • gain on the sale of ILFC; and • certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing

including Aircraft Leasing;	AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and our share of AerCap's income taxes; • non-operating litigation reserves and settlements; • reserve development related to non-operating run-off insurance business; and • restructuring and other costs related to initiatives designed to reduce operating expenses, improve efficiency and simplify our organization.

Results from discontinued operations are excluded from all of these measures.

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Item 2 / EXECUTIVE OVERVIEW

This overview of the MD&A highlights selected information and may not contain all of the information that is important to current or potential investors in AIG's securities. You should read this Quarterly Report on Form 10 Q, together with the 2015 Annual Report, in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting us.

We report our results of operations as follows:

- **Commercial Insurance** – Commercial Insurance offers insurance products and services to commercial and institutional customers worldwide. Commercial Insurance product lines include Casualty, Property, Specialty, Financial, Mortgage Insurance and Institutional Markets. Commercial Insurance products are distributed through a diversified multichannel distribution network that includes independent insurance brokers, banks, mortgage lenders, and specialized marketing and consulting firms.

- **Consumer Insurance** – Consumer Insurance offers a broad portfolio of retirement, life insurance and property casualty products and services to individuals and groups. Consumer Insurance products include term life, whole life, universal life, accident and health, variable and index annuities, fixed annuities, group retirement plans, mutual funds, financial planning, automobile and homeowners insurance, travel insurance, and warranty and service programs. Consumer Insurance offers its products and services through a diverse, multi-channel distribution network, which includes broker-dealers, agencies and independent marketing organizations, banks, brokers, partnerships, travel agents, affiliated financial advisors, and direct-to-consumer platforms.

- **Corporate and Other** – Corporate and Other consists of income from assets held by AIG Parent and other corporate subsidiaries, general operating expenses not attributable to specific reportable segments and interest expense. It also includes run-off lines of insurance business.

On January 26, 2016, we announced several actions designed to create a leaner, more profitable and focused insurer. These actions include a plan to reorganize our operating model into "modular", more self-contained business units to enhance transparency and accountability. Additionally, we are introducing a new Legacy Portfolio that aims to maximize value and release capital of certain run-off non-strategic assets and highlight progress on improving the return on equity (ROE) of our Operating Portfolio. When the new operating structure is finalized, the presentation of our segment results may be modified and prior periods' presentation may be revised to conform to the new structure.

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Item 2 / EXECUTIVE OVERVIEW

Financial Performance

Commercial Insurance pre tax operating income decreased in the three-month period ended June 30, 2016 compared to the same period in the prior year primarily due to an underwriting loss compared to underwriting income from Property Casualty in the same period in the prior year and lower returns on alternative investments which resulted in a decrease in net investment income in Property Casualty and Institutional Markets. The underwriting loss for Property Casualty was driven primarily by higher catastrophe losses and net loss reserve discount charge compared to a benefit in the prior year. This impact was partially offset by an improvement in the accident year loss ratio, as adjusted, lower net adverse prior year loss reserve development and lower general operating expenses as compared to the same period in the prior year. The decline in Property Casualty underwriting results was partially offset by an increase in underwriting income from Mortgage Guaranty resulting from an improved combined ratio.

Commercial Insurance pre tax operating income decreased in the six-month period ended June 30, 2016 compared to the same period in the prior year primarily due to lower underwriting income in Property Casualty and lower returns on alternative investments which resulted in a decrease in net investment income partially offset by an increase in underwriting income from Mortgage Guaranty. The underwriting results for Property Casualty were impacted by significantly higher catastrophe losses and a net loss reserve discount charge compared to a benefit in the same period in the prior year as a result of decreases in the forward yield curve rates used for discounting. These results were partially offset by an improvement in the accident year loss ratio, as adjusted and lower net adverse prior year loss reserve development compared to the same period in the prior year.

Consumer Insurance pre-tax operating income increased in the three-month period ended June 30, 2016 compared to the same period in the prior year, due to higher underwriting income in Personal Insurance and improved mortality results in Life, partially offset by lower returns on alternative investments which resulted in a decrease in net investment income for Retirement, Life and Personal Insurance. Personal Insurance pre-tax operating income increased in the three-month period ended June 30, 2016 compared to the same period in the prior year, reflecting strategic actions to reduce expenses and refocus direct marketing activities, partially offset by higher current year accident losses, including a single large loss, and lower net investment income. Retirement pre-tax operating income decreased in the three-month period ended June 30, 2016 compared to the same period in the prior year, primarily due to lower net investment income from alternative investments, partially offset by a decrease in general operating expenses from lower employee-related expenses. Life pre-tax operating income increased in the three-month period ended June 30, 2016 compared to the same period in the prior year, primarily due to more favorable mortality experience and lower domestic general operating expenses due to reductions in employee-related expenses.

Consumer Insurance pre-tax operating income decreased in the six-month period ended June 30, 2016 compared to the same period in the prior year, primarily due to lower returns on alternative investments resulting in lower net investment income in Retirement, Life and Personal Insurance. The lower net investment income was partially offset by improved underwriting results in Personal Insurance due to an improved accident year loss ratio, as adjusted and lower general operating expenses, favorable mortality experience in Life and lower domestic general operating expenses in Retirement and Life.

Corporate and Other reported pre-tax operating losses in the three- and six-month periods ended June 30, 2016 compared to pre-tax operating income in the same periods in the prior year, primarily due to lower earnings on investments for which the fair value option was elected, including ABS CDOs and part of our holdings in People's Insurance Company (Group) of China Limited (PICC Group) and PICC Property & Casualty Company Limited (PICC P&C) (collectively, our PICC Investment), as well as equity earnings from shares in AerCap in same period in the prior year, which was divested in 2015. Additionally, Run-off insurance lines reported pre-tax operating losses in the three- and six-month periods ended June 30, 2016 compared to pre-tax operating income in the same periods in the prior year. The pre-tax operating losses in Run-off insurance lines were driven by a charge for the discount on excess workers' compensation reserves in the three- and six-month periods ended June

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30, 2016 compared to a benefit in the same periods in the prior year, largely driven by decreases in the forward yield curve rates used for discounting.

Our investment portfolio performance declined in the three-month period ended June 30, 2016 compared to the same period in the prior year due to lower returns on alternative investments and lower reinvestment yields as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolio. These decreases were partially offset by higher gains on securities for which the fair value option was elected. Our investment portfolio performance declined in the six-month period ended June 30, 2016 compared to the same period in the prior year due to lower income on alternative investments, primarily related to negative performance in hedge funds, and lower reinvestment yields, partially offset by an increase in invested assets and higher gains on securities for which the fair value option was elected.

Net realized capital gains increased in the three-month period ended June 30, 2016 compared to the same period in the prior year, due primarily to higher realized capital gains from sales of investments, primarily from the sale of a portion of our PICC Investment. In addition, other-than temporary impairment charges decreased due to an impairment charge on our previously held Aercap investment recognized in the second quarter of 2015.

We recorded net realized capital losses in the six-month period ended June 30, 2016 primarily due to foreign exchange losses and impairments, which were slightly higher than the gain recognized on the sale of a portion of our PICC Investment, compared to net realized capital gains in the same period in the prior year, which was driven primarily by foreign exchange gains and net gains on the sales of various securities such as the Class B shares of Prudential Financial. See MD&A – Investments – Net Realized Capital Gains and Losses for further discussion.

In keeping with our broad and on-going efforts to transform AIG for long-term competitiveness, results for the three- and six-month periods ended June 30, 2016 included approximately $0.1 billion and $0.3 billion, respectively, of pre-tax restructuring and other costs, primarily composed of employee severance and contract termination charges.

We continue to execute initiatives focused on organizational simplification, operational efficiency, and business rationalization, which are expected to result in pre-tax restructuring and other costs of approximately $1 billion (of which approximately $0.8 billion has been recognized) as well as generate pre-tax annualized savings of approximately $0.8 billion to $0.9 billion when fully implemented.

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Our Performance – Selected Indicators

(in millions, except per share data and ratios)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Results of operations data:				
Total revenues	**$ 14,724**	$ 15,699	**$ 26,503**	$ 31,674
Income from continuing operations	**1,934**	1,775	**1,778**	4,251
Net income attributable to AIG	**1,913**	1,800	**1,730**	4,268
Net income per common share attributable to AIG (diluted)	**1.68**	1.32	**1.49**	3.10
After-tax operating income attributable to AIG	**$ 1,113**	$ 1,893	**$ 1,886**	$ 3,584
After-tax operating income per common share attributable to AIG (diluted)	**0.98**	1.39	**1.62**	2.60
Key metrics:				
Commercial Insurance				
Pre-tax operating income	**$ 1,088**	$ 1,500	**$ 1,977**	$ 2,962
Property Casualty loss ratio	**75.0**	70.8	**71.6**	69.5
Property Casualty accident year loss ratio, as adjusted	**62.4**	66.6	**63.4**	65.5
Property Casualty combined ratio	**102.1**	98.8	**99.6**	97.9
Property Casualty accident year combined ratio, as adjusted	**89.5**	94.6	**91.4**	93.9
Property Casualty net premiums written	**$ 4,424**	$ 5,583	**$ 8,731**	$ 10,630
Mortgage Guaranty domestic first-lien new insurance written	**12,985**	15,190	**21,812**	25,732
Institutional Markets premiums	**215**	643	**450**	739
Institutional Markets premiums and deposits	**506**	680	**810**	826
Consumer Insurance				
Pre-tax operating income	**$ 1,104**	$ 1,023	**$ 1,892**	$ 1,968
Personal Insurance loss ratio	**55.7**	52.7	**54.1**	55.8
Personal Insurance accident year loss ratio, as adjusted	**55.0**	52.8	**54.1**	54.6
Personal Insurance combined ratio	**95.7**	99.7	**94.8**	101.5
Personal Insurance accident year combined ratio, as adjusted	**95.0**	99.8	**94.8**	100.3
Personal Insurance net premiums written	**$ 2,922**	$ 2,930	**$ 5,734**	$ 5,845
Retirement premiums	**52**	44	**106**	90
Retirement premiums and deposits	**6,431**	6,070	**13,284**	11,579
Life premiums	**762**	702	**1,498**	1,410
Life premiums and deposits	**1,317**	1,249	**2,568**	2,472
Life Insurance Companies assets under management	**355,149**	336,881	**355,149**	336,881

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Common Stock Repurchases:				
Aggregate repurchases of common stock	**$2,762**	$2,345	**$ 6,248**	$ 3,743
Total number of common shares repurchased	**50**	40	**113**	69*
Aggregate repurchase of warrants	**90**	-	**263**	-
Total number of warrants repurchased	**5**	-	**15**	-

* The total number of shares of AIG Common Stock repurchased in the six-month period ended June 30, 2015 includes (but the aggregate purchase price
does not include) approximately 3.5 million shares of AIG Common Stock received in January 2015 upon the settlement of an ASR agreement executed in
the fourth quarter of 2014.

(in millions, except per share data)	**June 30, 2016**	December 31, 2015
Balance sheet data:		
Total assets	**$510,349**	$ 496,842
Long-term debt	**33,329**	29,249
Total AIG shareholders' equity	**89,946**	89,658
Book value per common share	**83.08**	75.10
Book value per common share, excluding AOCI	**75.45**	72.97
Book value per common share, excluding AOCI and DTA	**61.03**	58.94

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2016	2015	**2016**	2015	2015
Return on equity	**8.6%**	6.8%	**3.9%**	8.0%	2.2%
Return on equity - after-tax operating income, excluding AOCI	**5.4**	7.8	**4.5**	7.4	3.1
Return on equity - after-tax operating income, excluding AOCI and DTA	**6.7**	9.3	**5.6**	8.8	3.7

The following table presents a reconciliation of Book value per common share to Book value per common share, excluding AOCI, and Book value per common share, excluding AOCI and DTA, which are non-GAAP measures. See Use of Non GAAP Measures for additional information.

(in millions, except per share data)	**June 30, 2016**	December 31, 2015
Total AIG shareholders' equity	**$ 89,946**	$ 89,658
Accumulated other comprehensive income	**8,259**	2,537

Total AIG shareholders' equity, excluding AOCI	**81,687**	87,121
Deferred tax assets	**15,614**	16,751
Total AIG shareholders' equity, excluding AOCI and DTA	**$ 66,073**	$ 70,370
Total common shares outstanding	**1,082,689,362**	1,193,916,617
Book value per common share	**$ 83.08**	$ 75.10
Book value per common share, excluding AOCI	**75.45**	72.97
Book value per common share, excluding AOCI and DTA	**$ 61.03**	$ 58.94

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The following table presents a reconciliation of Return on equity to Return on equity, after-tax operating income, excluding AOCI, and Return on equity, after-tax operating income, excluding AOCI and DTA, which are non-GAAP measures. See Use of Non GAAP Measures for additional information.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(dollars in millions)	**2016**	2015	**2016**	2015
Actual or annualized net income (loss) attributable to AIG	**$ 7,652**	$ 7,200	**$ 3,460**	$ 8,536
Actual or annualized after-tax operating income attributable to AIG	**4,452**	7,572	**3,772**	7,168
Average AIG Shareholders' equity	**89,232**	106,119	**89,374**	106,378
Average AOCI	**6,892**	9,139	**5,440**	9,631
Average AIG Shareholders' equity, excluding average AOCI	**82,340**	96,980	**83,934**	96,747
Average DTA	**16,220**	15,428	**16,397**	15,671
Average AIG Shareholders' equity, excluding average AOCI and DTA	**$ 66,120**	$ 81,552	**$ 67,537**	$ 81,076
ROE	**8.6%**	6.8%	**3.9%**	8.0
ROE - after-tax operating income, excluding AOCI	**5.4**	7.8	**4.5**	7.4
ROE - after-tax operating income, excluding AOCI and DTA	**6.7**	9.3	**5.6**	8.8

Total revenues

(in millions)

Income from continuing operations

(in millions)

Net income ATTRIBUTABLE TO AIG

(in millions)

Net INCOME PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)

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after-tax operating income attributable to aig (excludes net realized capital gains and certain other items)

(in millions)

Pre-tax operating income (loss) by segment

(in millions)

TOTAL ASSETS *(in millions)*		**Long-term debt** *(in millions)*
Total AIG shareholders' equity *(in millions)*		**Book value per COMMON share, book value per common share excluding AOCI and book value per common share excluding AOCI and dta**

* Includes operating borrowings of other subsidiaries and consolidated investments and hybrid debt securities.

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Investment Highlights

Net investment income decreased to $3.7 billion in the three-month period ended June 30, 2016 compared to $3.8 billion in the same period in the prior year due to lower income on alternative investments and lower reinvestment yields, partially offset by an increase in invested assets and higher gains on securities for which the fair value option was elected. Net investment income decreased to $6.7 billion in the six-month period ended June 30, 2016 compared to $7.7 billion in the same period in the prior year due to lower income on alternative investments, primarily related to negative performance in hedge funds, and lower reinvestment yields, partially offset by an increase in invested assets and higher gains on securities for which the fair value option was elected. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities, mortgage loans and other fixed income investments with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio increased to approximately $18.0 billion as of June 30, 2016, from approximately $8.8 billion as of December 31, 2015, due to a decline in interest rates and a narrowing of credit spreads.

The overall credit rating of our fixed maturity securities portfolio remains largely unchanged from December 31, 2015.

Liquidity and Capital Resources Highlights

We maintained financial flexibility at AIG Parent in the six-month period ended June 30, 2016 through $1.5 billion in dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and $1.4 billion in dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. AIG Parent also received $1.6 billion in tax sharing payments in the form of cash and fixed maturity securities from our insurance businesses in the six-month period ended June 30, 2016, including $1.1 billion of such payments in the second quarter of 2016.

Our Board of Directors increased our previous share repurchase authorization of AIG Common Stock, par value $2.50 per share (AIG Common Stock), by an additional $3.0 billion on August 2, 2016, resulting in a remaining authorization on such date of approximately $4.0 billion. During the six-month period ended June 30, 2016, we repurchased approximately 113 million shares of AIG Common Stock for an aggregate purchase price of approximately $6.2 billion pursuant to this authorization, and we repurchased 15 million warrants to purchase shares of AIG Common Stock, for an aggregate purchase price of $263 million pursuant to this authorization. Pursuant to a Securities Exchange Act of 1934 (Exchange Act) Rule 10b5-1 repurchase plan, from July 1 to August 2, 2016, we have repurchased

approximately $698 million of additional shares of AIG Common Stock.

We paid a cash dividend on AIG Common Stock of $0.32 per share on each of March 28, 2016 and June 27, 2016.

Our Board of Directors declared a cash dividend on AIG Common Stock on August 2, 2016 of $0.32 per share, payable on September 29, 2016 to shareholders of record on September 15, 2016.

Industry Trends

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2016, characterized by factors such as historically low interest rates, instability in the global equity markets, volatile energy markets, slowing growth in China and Euro-Zone economies and the United Kingdom (the UK) advisory referendum in which a majority voted for the UK to withdraw its membership in the European Union (the EU) (commonly referred to as Brexit). The recent Brexit vote has also affected the

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U.S. dollar/British pound exchange rate, increased the volatility of exchange rates among the euro, British pound and the Japanese yen (the Major Currencies), and created volatility in the financial markets, which may continue for some time.

Interest rates remain low relative to historical levels, and certain markets in which we operate are experiencing negative interest rates. A sustained low interest rate environment negatively affects sales of interest rate sensitive products in our industry and may negatively impact the profitability of our existing business as we reinvest cash flows from investments, including increased calls and prepayments of fixed maturity securities and mortgage loans, at rates below the average yield of our existing portfolios. We actively manage our exposure to the interest rate environment through economic hedging of interest rate risk from guarantee features in our variable annuities and spread management strategies for our investment-oriented products.

For investment-oriented products in our Retirement, Life and Institutional Markets operating segments, our spread management strategies include disciplined pricing and product design for new business, limiting the sale of products that do not achieve targeted spreads, using asset-liability management to match assets to liabilities to the extent practicable, and actively managing crediting rates to help mitigate some of the pressure on investment spreads. Lowering interest crediting rates can help offset the impact of lower investment yields, but our ability to lower crediting rates may be limited by the competitive environment, contractual minimum crediting rates, and provisions that allow rates to be reset only at pre-established intervals. As a result, the timing and extent of crediting rate decreases may differ from the corresponding declines in investment yields, which could reduce our spreads and future profitability. A sustained low interest rate environment may favorably affect surrender activity of contract holders whose contractual minimum crediting rates are above those currently available in the marketplace. In addition, customers are currently seeking fixed annuities with longer surrender charge periods in pursuit of higher returns, which may help mitigate the increase of surrenders if interest rates rise rapidly in the future.

Spreads and surrender rates are important components of the future profit assumptions that drive the rate we use to amortize DAC and related reserves for investment-oriented products. If future profit assumptions change significantly, we may be required to recalculate DAC and related reserves, and reflect any resulting adjustments in current period income. Additionally, for certain traditional long-duration products for which we are unable to adjust interest rates, including structured settlements and other payout annuities, our future earnings may be reduced in a sustained low interest rate environment, and we may be required to record additional reserves.

The impact of low interest rates on our Property Casualty operating segment is primarily on our long-tail Casualty line of business. We expect limited impacts on our existing long-tail Casualty business as the duration of our assets is slightly longer than that of our liabilities. We do expect sustained low interest rates will impact new and renewal business for the long-tail Casualty line as we may not be able to adjust our future pricing to fully offset the impact of investing at lower rates. However, we will continue to maintain pricing discipline and risk selection.

For our Property Casualty operating segment, and run-off insurance lines reported within Corporate and Other, sustained low interest rates may unfavorably affect the net loss reserve discount for workers' compensation, and to a lesser extent could favorably impact assumptions about future medical costs; the combined net effect of which could result in higher net loss reserves.

Additionally, sustained low interest rates on discounting of projected benefit cash flows for our pension plans may result in higher pension expense.

Currency volatility in the first half of 2016 was acute compared to recent years, as the euro and the British pound weakened considerably against the U.S. dollar, although the Japanese yen strengthened against the U.S. dollar in that period. Such volatility affected line item components of income for those businesses with substantial international operations. In particular, growth trends in net premiums written reported in U.S. dollars can differ significantly from those measured in original currencies. The net effect on underwriting results, however, is significantly mitigated, as both revenues and expenses are similarly affected.

These currencies may continue to fluctuate, in either direction, especially as a result of the UK's potential exit from the EU, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

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See Results of Operations – Foreign Currency Impact; Results of Operations – Segment Results – Quarterly and Year-to-date Pre-Tax Income Comparison for 2016 and 2015; Results of Operations – Commercial Insurance – Property Casualty Net Premiums Written by Region; and Results of Operations – Consumer Insurance – Personal Insurance Net Premiums Written by Region.

AIG is focused on the following priorities for 2016:

- Improving our ROE
- Creating a leaner, more profitable and focused insurer by reorganizing our operating model into "modular", more self-contained business units to enhance transparency and accountability, including through the introduction of a new Legacy Portfolio that aims to maximize value and release capital from the run-off of non-strategic assets
- Reducing general operating expenses
- Improving the Commercial Insurance Property Casualty accident year loss ratio
- Returning excess capital to shareholders
- Growing book value per common share

The outlook for each of our businesses and management initiatives to improve growth and performance in 2016 and over the longer term is summarized below. See our 2015 Annual Report for additional information concerning strategic initiatives and opportunities for each of our businesses.

COMMERCIAL INSURANCE Outlook and Strategic initiatives

Market Conditions and Industry Trends

Commercial Insurance expects the current low interest rate environment relative to historical levels, currency volatility, and ongoing uncertainty in global economic conditions will continue to limit growth and

profitability in some markets and challenge growth of net investment income. Due to these conditions and overcapacity in the property casualty insurance industry, Commercial Insurance has continued to diversify its business focusing on growing profitable segments and geographies, exiting unprofitable lines and developing advanced data and analytics to improve profitability.

Property Casualty

Property Casualty has observed improving trends in certain key indicators that may partially offset the effect of current economic challenges. In the first half of 2016, the property casualty insurance industry experienced growth in certain classes of business in Property and Financial lines. Property Casualty also expects that expansion in certain growth economies will continue at a faster pace than in developed countries, but at levels lower than those previously expected due to revised economic assumptions. As a result of its ongoing strategy to optimize its portfolio and maintain underwriting discipline, Property Casualty expects that net premiums written for the U.S. Casualty line, and to a lesser extent, certain lines within Specialty and Property, will continue to decrease throughout the remainder of the year. In addition, the recent Brexit

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referendum may negatively affect premium production in the European market, both on a reported basis and in original currency.

Overall, Property Casualty experienced a modest increase in rate pressure in the first half of 2016. Property Casualty expects that trend to continue in the near term, particularly in certain lines including in the U.S. Property Excess and Surplus market. Property Casualty continues to differentiate its underwriting capacity from its peers by leveraging its global footprint, diverse product offering, risk engineering expertise and significant underwriting experience.

In the U.S., Property Casualty's exposure to terrorism risk is mitigated by the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) in addition to limited private reinsurance protections. For additional information on TRIPRA, see Item 1A. Risk Factors — Reserves and Exposures and Item 7. MD&A — Enterprise Risk Management — Insurance Operations Risks — Non-Life Insurance Companies Key Insurance Risks — Terrorism Risk in our 2015 Annual Report.

Mortgage Guaranty

During the first half of 2016, the U.S. market for purchase originations and refinance volume remained strong, favorably impacted by improving housing prices and low interest rates. In addition, the current economic environment has favorably impacted incurred losses through fewer new delinquencies and higher cure rates. If the current economic environment persists, Mortgage Guaranty expects to benefit through increased purchase volume and increased refinancing activity.

Mortgage Guaranty also expects that the delinquency rate and cure rate will remain near current levels throughout 2016. Mortgage Guaranty believes the combination of the factors described above will result in favorable operating results for 2016. These favorable trends may be partially offset by an increase in competitive pricing pressure.

On December 31, 2015, the Private Mortgage Insurer Eligibility Requirements (PMIERs) issued by Fannie Mae and Freddie Mac (collectively, the GSEs) became effective. Mortgage Guaranty met the PMIERs requirements as of June 30, 2016. Mortgage Guaranty's minimum required assets under PMIERs were $2.9 billion as of June 30, 2016, and its estimated available assets were $3.3 billion, exceeding the required assets by $400 million. Available assets decreased from $3.6 billion at December 31, 2015, primarily as a result of dividend payments.

Institutional Markets

Institutional Markets is expected to continue growing its assets under management from the structured

settlement business and the stable value wrap business, as well as from disciplined growth through the pursuit of select opportunities related to pension buyouts. Volatility in the earnings of our alternative investment portfolio will continue to affect Institutional Markets' results. In addition, Institutional Markets could incur loss recognition reserve increases, if future yield assumptions were lowered on assets that support certain long-duration products, primarily structured settlements, for which Institutional Markets does not have the ability to adjust interest rates. Lower assumptions for future yields on such assets could result from reinvestment of portfolio cash flows in the sustained low interest rate environment, which may include proceeds from the strategic sale of alternative investments that currently support such products.

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Strategic Initiatives

Customer — Strive to be our clients' most valued insurer by offering innovative products, superior service and access to an extensive global network.

Sharpen Commercial Focus — Achieve ROE in excess of target across our businesses primarily through improvements in our loss ratio. Improve our business portfolio through risk selection by using enhanced data, analytics and the application of science to deliver superior risk-adjusted returns. Exit or remediate targeted sub-segments of underperforming portfolios that do not meet our risk acceptance or profitability objectives.

Drive Efficiency — Reorganize our operating model into "modular", more self-contained business units to enhance decision making, transparency and accountability, driving performance improvement and strategic flexibility over time; increase capital fungibility and diversification, streamline our legal entity structure, optimize reinsurance, improve tax efficiency and reduce expenses.

Invest to Grow — Grow our higher-value businesses while investing in transformative opportunities, continuing initiatives to modernize our technology and infrastructure, advancing our engineering capabilities, innovating new products and client risk services and delivering a better client experience.

Customer

Our vision is to be our clients' most valued insurer. We expect that investments in underwriting, claims services, client risk services, science and data will continue to differentiate us from our peers and drive a superior client experience. For example, during the fourth quarter of 2015, we increased global commercial property limits to $2.5 billion per occurrence from $1.5 billion, in response to increased demand for capacity and services from clients managing complex global risks and increasing property values. This increase was the result of recent investments in engineering and analytical capabilities, which in turn allowed us to secure meaningful support from a panel of long-standing reinsurers.

Sharpen Commercial Focus

Exit or remediate targeted underperforming portfolios

Commercial Insurance is focused on serving our clients by providing the products and services where we have the most potential to deliver value. Experience and emerging data indicate that there are consistently under-performing sub-segments of our business. We will invest and grow where we see opportunity and we will exit or remediate underperforming portfolios. For example, in 2015 we transferred approximately $1.2 billion of loss reserves to our run-off insurance lines and in the first half of 2016 we transferred another $1.3 billion. This enables us to focus on growth opportunities while allowing for more proactive management of the transferred reserves by run-off specialists. We also did not renew certain accounts that did not meet our profit objectives in our Casualty lines and, to a lesser extent, in our Property and Specialty lines.

We will continue to further enhance our risk selection process and refine technical pricing through enhanced tools and analytics to achieve this goal.

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Drive Efficiency

Narrow geographic footprint while continuing to maintain and improve multinational capabilities

Commercial Insurance, along with our other businesses, continues to evaluate the markets and geographies that provide the greatest opportunities, while maintaining the global footprint that our multinational clients greatly value. Additionally, we will continue to leverage our various off-shore centers, taking advantage of opportunities to centralize and standardize processes and platforms. We believe there is great opportunity to further streamline our global operating model.

Expand and optimize the use of reinsurance and other risk mitigating strategies

Commercial Insurance continues to execute capital management initiatives by enhancing broad based risk tolerance guidelines for its operating units, implementing underwriting strategies to increase ROE by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. Commercial Insurance remains focused on enhancing its global reinsurance strategy to improve overall capital efficiency, although this strategy may lead to periodic income statement volatility.

In accordance with our strategic plan, during the first quarter of 2016, we entered into a two-year reinsurance arrangement with the Swiss Re Group, under which a proportional share of our new and renewal U.S. Casualty portfolio is being ceded. This arrangement is reducing the impact of the U.S. Casualty loss ratio on our overall loss ratio.

Accelerate micro-segmentation of risks using internal and external data

Property Casualty continues to improve decision-making, risk acceptance and pricing based on its ongoing efforts to refine segmentation by customer, industry and geography. For example, after enhancing the segmentation of workers' compensation, Property Casualty has observed different experience and trends, which helps inform its risk appetite, pricing and loss mitigation decisions.

Invest to Grow

Grow most profitable lines

Property Casualty continues to focus on growth in our higher-value businesses while investing in transformative opportunities, continuing initiatives to modernize our technology and infrastructure, advancing our engineering capabilities, innovating new products and client risk services and delivering a better client experience. Property Casualty expects to grow in businesses such as Financial lines,

including D&O, Cyber and Mergers & Acquisitions, Large Limit and Middle Market Property, Multinational and certain areas internationally.

Mortgage Guaranty expects to continue as a leading provider of mortgage insurance and seeks to differentiate itself from its competitors by utilizing its proprietary risk-based pricing strategy. This pricing strategy provides Mortgage Guaranty's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which we believe will result in an appropriately priced, high-quality book of business. As announced on January 26, 2016, we plan to conduct an initial public offering of up to 19.9 percent of Mortgage Guaranty, subject to regulatory and GSE approval, as a first step towards a full separation. On March 30, 2016, an initial Form S-1 registration statement relating to Mortgage Guaranty was filed with the SEC. An amendment to the initial Form S-1 was filed on May 20, 2016.

Institutional Markets is expected to continue growing the structured settlement business and continue contributing to growth in assets under management with stable value wraps and utilizing a disciplined approach to growth and diversification of our business by pursuing select opportunities in areas such as the pension buyout business.

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consumer insurance outlook and STRATEGIC INITIATIVES

Market Conditions and Industry Trends

Retirement

Increasing life expectancy and reduced expectations for traditional retirement income from defined benefit programs and fixed income securities are leading Americans to seek additional financial security as they approach retirement. The strong demand for individual variable and fixed index annuities with guaranteed income features has attracted increased competition in this product space. In response to the continued low interest rate environment, which has added pressure to profit margins, we have developed guaranteed income benefits for both variable and fixed index annuities with margins that are less sensitive to the level of interest rates. In addition, higher tax rates and a desire for better investment returns have prompted less risk-averse investors to elect products without guaranteed living benefits.

The sustained low interest rate environment has a significant impact on the annuity industry. Low long-term interest rates put pressure on investment returns, which may negatively affect sales of interest rate sensitive products and reduce future profits on certain existing fixed rate products, although our disciplined rate setting has helped to mitigate some of the pressure on investment spreads. In addition, more highly leveraged competitors have entered the market offering higher crediting rates. As long as the low interest rate environment continues, conditions will be challenging for the fixed annuity market. Rapidly rising interest rates could create the potential for increased sales, but may also drive higher surrenders. Customers are, however, currently buying fixed annuities with longer surrender periods in pursuit of higher returns, which may help mitigate the rate of increase in surrenders in a rapidly rising rate environment. In addition, older contracts have higher minimum interest rates, which continue to be attractive to the contract holders, driving better than expected persistency. Low interest rates have also driven growth in our fixed index annuity products, which provide additional interest crediting tied to favorable performance in certain equity market indices.

Consumer Insurance provides products and services to certain employee benefit plans that are subject to restrictions imposed by ERISA and the Internal Revenue Code, including rules that generally restrict the provision of investment advice by a fiduciary to ERISA plans and participants and Individual Retirement Accounts (IRAs) if the investment recommendation results in fees paid to the fiduciary individual advisor,

his or her firm or their affiliates that vary according to the investment recommendation chosen. On April 8, 2016, the DOL published its final fiduciary duty rule (the Final Rule), substantially expanding the definition of fiduciary investment advice. As a result, the circumstances under which financial services providers and financial advisors could be deemed a fiduciary under ERISA or the Internal Revenue Code when providing investment advice with respect to ERISA plans or IRAs are greatly expanded. For additional information on the Final Rule, see Part I, Item 2. MD&A – Regulatory Environment section of the Quarterly Report on Form 10-Q for the period ended March 31, 2016. We are analyzing the Final Rule's potential impact on our customers, distribution partners, financial advisors and us, and preparing to implement the necessary adjustments to come into compliance with the Final Rule. The Final Rule could require us, and our competitors, to make material changes to certain of our business practices and product designs, and could materially affect our ability and the ability of our distribution partners and financial advisors to sell or service certain annuities and other investment products. The initial compliance date of the final rule is April 10, 2017, with full compliance required by January 1, 2018. Once we have completed our analysis of the Final Rule's potential impact, we intend to strategically invest in the most attractive post-DOL opportunities across the market.

Life

Populations are living longer and have increased needs for financial protection for beneficiaries, estate planning and wealth creation. The Life operating segment addresses these needs with a broad spectrum of products, ranging from the pure protection focus of term life to indexed universal life and investment-oriented products such as variable universal life. Market factors, primarily low interest rates and regulatory changes, have caused the universal life market to shift its focus from guaranteed universal life to indexed universal life products that offer cash accumulation and living benefit options.

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Personal Insurance

The need for full life cycle products and coverage, increases in personal wealth accumulation, and awareness of insurance protection and risk management continue to support the growth of the Personal Insurance industry. Our Personal Insurance operations focus on group and corporate clients, together with individual customers within national markets. We expect the demand for multinational cross-boundary coverage and services to increase due to the internationalization of clients and customers. Our global presence provides Personal Insurance a distinct competitive advantage.

In Japan, the competition for auto insurance has intensified, in part driven by a decline in new car sales and the existence of fewer but larger insurers. In addition, the overall market size in homeowners insurance contracted after the duration restriction on long-term fire insurance became effective in October 2015. In the U.S., we compete in the high net worth market and will continue to expand our innovative products and services to distribution partners and clients. Outside of Japan and the U.S., our Personal Insurance operating segment continues to invest selectively in markets where we believe higher potential for sustainable profitability exists.

Strategic Initiatives

Customer — Strive to be our clients' most valued insurer. Through our unique franchise, which brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks, Consumer Insurance aims to provide customers with the products and services they desire, delivered through the channels they prefer.

Information-driven Strategy — Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.

Sharpen Consumer Focus — Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics and narrow our footprint in less profitable markets with insufficient scale.

Operational Effectiveness — Simplify processes and enhance operating environments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.

Investment Strategy — Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of the related insurance liabilities, and pursue selective yield-enhancement opportunities that meet liquidity, risk and return objectives.

Profitability and Capital Management — Deliver solid earnings through disciplined pricing, sustainable underwriting improvements, expense reductions and diversification of risk, and increase capital efficiency within insurance entities to enhance return on equity.

Customer

In striving to be our clients' most valued insurer, we have implemented initiatives to better serve our target segments. Our focus on ease of doing business for consumers and producers includes enhancements to our platforms and services. We are working to expand relationships with key distribution partners to offer our products across multiple distribution channels.

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Information-driven Strategy

We believe that strengthening our information-driven decision making and marketing capabilities through the use of enhanced analytics, stronger platforms and tools, a well-designed product portfolio and expanded relationships may allow us to bring more effective product solutions to our chosen markets.

We focus on rate adequacy through our global underwriting practices and tools and analytics, and seek to optimize the value of our business lines through product and portfolio management and refined technical pricing. We strive to deliver leading customer experience and efficiency through claims best practices, deployment of enhanced operating structures and standardized processes and systems, while managing claims-handling efficiency.

Sharpen Consumer Focus

Retirement Income Solutions intends to continue capitalizing on the opportunity to meet consumer demand for guaranteed income by maintaining competitive variable annuity product offerings, while managing risk from guarantee features through risk-mitigating product design and well-developed economic hedging capabilities. Retirement Income Solutions continues to invest in hedging and market risk management capabilities. Retirement Income Solutions has diversified its product portfolio by offering fixed index annuities that also offer guaranteed withdrawal features, which provide additional lifetime income solutions for consumers approaching retirement.

Fixed Annuities sales will continue to be challenged by the low interest rate environment. Sales of fixed annuities could improve if interest rates rise and the yield curve steepens, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits; however, they could also lead to higher surrender activity. During periods of equity market volatility, our fixed annuity products provide diversity in our annuity product suite by offering stable returns for retirement savings. The growing market for immediate and deferred income products, driven by customers seeking guaranteed income products, provides an opportunity for Fixed Annuities to increase the diversification of its product portfolio.

Life will continue to invest to position itself for growth, serve its customers more effectively, and maintain pricing discipline in its overall strategy. Life's organization has been aligned to focus on the demographic, governmental and socioeconomic trends unique to each area in which we operate. In January 2016, we announced a plan to improve capital efficiency by using reinsurance to reduce certain statutory reserves that are above economic requirements in our domestic Life business.

Personal Insurance aims to provide clients with the products and services they desire, delivered through the channels they prefer. We continue to focus and invest in the most profitable markets and segments,

while narrowing our footprint where appropriate. We are also leveraging our multinational capabilities to meet the increasing demand for cross-border coverage and services. Personal Insurance will continue to utilize its strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

Operational Effectiveness

We are continuing to invest in initiatives that we believe will make our operating platforms simpler and more agile, enabling us to provide superior service and accommodate future growth. In Japan, we continue to invest in technology to improve operating efficiency and ease of doing business for our distribution partners and customers. In the U.S. Life business, we are focused on leveraging our most efficient systems and increasing automation of our underwriting process. We believe that simplifying our operating models will enhance productivity and support further profitable growth.

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Investment Strategy

Our investment objective is to maintain a diversified, high quality portfolio of fixed maturity securities having weighted average durations that are matched to the duration and cash flow profile of our liabilities, to the extent practicable. Our investment strategy is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset-liability matching and available investment opportunities. While a portfolio of alternative investments remains a fundamental component of the investment strategy of the Life Insurance Companies, we intend to reduce the overall size of the hedge fund portfolio, in light of changing market conditions and perceived market opportunities, and to continue reducing the size of the private equity portfolio. See Investments for additional discussion of investment strategies. If these reductions were to include the sale of alternative investments that support certain payout annuities, we could incur additional loss recognition expense on such products, due to updating assumptions to reflect reinvestment at lower future yields. See Critical Accounting Estimates — Insurance Liabilities — Future Policy Benefits for Life and Accident and Health Insurance Contracts (Life Insurance Companies) for discussion of assumptions related to loss recognition testing in our 2015 Annual Report.

Profitability and Capital Management

We are focused on enhancing profitability and capital efficiency within our insurance entities through disciplined pricing, in-force profitability management, effective management of risk and expense reductions. For product lines where we have significant equity market risk and exposure to changes in interest rates, we use risk management tools, such as the risk mitigation product features and hedging program in our Retirement Income Solutions and Group Retirement annuity businesses. Additionally, our scale and the breadth of our product offerings provide diversification of risk. Within our Non-Life Insurance Companies, we continue to increase capital efficiency.

In conjunction with our strategic divestiture program, in May 2016, we completed the sale of AIG Advisor Group, our network of independent broker-dealers, to investment funds affiliated with Lightyear Capital LLC and PSP Investments, and recognized a pre-tax gain of $225 million.

See Results of Operations — Consumer Insurance and Insurance Reserves for additional information about our Consumer Insurance businesses.

The following section provides a comparative discussion of our Results of Operations on a reported basis

for the three- and six-month periods ended June 30, 2016 and 2015. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A and Part II, Item 7. MD&A — Critical Accounting Estimates in the 2015 Annual Report.

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Item 2 / RESULTS OF OPERATIONS

The following table presents our consolidated results of operations:

	Three Months Ended	Six Months Ended