AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 02, 2015

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 September 30, 2015	**Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of October 29, 2015, there were 1,237,012,512 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

September 30, 2015

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

	Sep
(in millions, except for share data)	
Assets:	
Investments:	
Fixed maturity securities:	
Bonds available for sale, at fair value (amortized cost: 2015 - $241,985; 2014 - $243,307)	$
Other bond securities, at fair value (See Note 5)	
Equity Securities:	
Common and preferred stock available for sale, at fair value (cost: 2015 - $1,806; 2014 - $1,930)	
Other common and preferred stock, at fair value (See Note 5)	
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2015 - $11; 2014 - $6)	
Other invested assets (portion measured at fair value: 2015 - $9,333; 2014 - $9,394)	
Short-term investments (portion measured at fair value: 2015 - $2,733; 2014 - $1,684)	
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 $247 in 2015 and $2,025 in 2014	
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: 2015 - $2,287; 2014 - $1,561)	

Other policyholder funds (portion measured at fair value: 2015 - $8; 2014 - $8)
Other liabilities (portion measured at fair value: 2015 - $298; 2014 - $350)
Long-term debt (portion measured at fair value: 2015 - $3,985; 2014 - $5,466)
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: 2015 - 1,906,671,492 and 2014 - 1,906,671,492
Treasury stock, at cost; 2015 - 659,876,877 shares; 2014 - 530,744,521 shares
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 (LOSS) *(unaudited)*

	Three Months Ended September 30,		
(dollars in millions, except per share data)	**2015**	2014	
Revenues:			
Premiums	**$ 8,862**	$ 9,486	**$**
Policy fees	**701**	677	
Net investment income	**3,206**	4,028	
Net realized capital gains (losses):			
Total other-than-temporary impairments on available for sale securities	**(225)**	(34)	
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	**(17)**	(1)	
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	**(242)**	(35)	
Other realized capital gains (losses)	**(100)**	571	
Total net realized capital gains (losses)	**(342)**	536	
Aircraft leasing revenue	**-**	-	
Other income	**395**	1,970	
Total revenues	**12,822**	16,697	
Benefits, losses and expenses:			
Policyholder benefits and losses incurred	**6,936**	7,203	
Interest credited to policyholder account balances	**881**	882	
Amortization of deferred policy acquisition costs	**1,275**	1,288	
General operating and other expenses	**3,175**	3,151	
Interest expense	**321**	430	
Aircraft leasing expenses	**-**	-	
Loss on extinguishment of debt	**346**	742	
Net (gain) loss on sale of divested businesses	**3**	(18)	
Total benefits, claims and expenses	**12,937**	13,678	
Income (loss) from continuing operations before income tax expense	**(115)**	3,019	
Income tax expense	**65**	820	
Income (loss) from continuing operations	**(180)**	2,199	
Income (loss) from discontinued operations, net of income tax expense	**(17)**	2	
Net income (loss)	**(197)**	2,201	
Less:			
Net income (loss) from continuing operations attributable to noncontrolling interests	**34**	9	

Net income (loss) attributable to AIG	**$**	**(231)**	$	2,192	**$**
Income (loss) per common share attributable to AIG:					
Basic:					
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.54	**$**
Income (loss) from discontinued operations	**$**	**(0.01)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(0.18)**	$	1.54	**$**
Diluted:					
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.52	**$**
Income (loss) from discontinued operations	**$**	**(0.01)**	$	-	**$**
Net income (loss) attributable to AIG	**$**	**(0.18)**	$	1.52	**$**
Weighted average shares outstanding:					
Basic		**1,279,072,748**		1,419,239,774	
Diluted		**1,279,072,748**		1,442,067,842	
Dividends declared per common share	**$**	**0.280**	$	0.125	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

(in millions)	Three Months Ended September 30, **2015**	2014	Nine Mont Ended September **2015**	
Net income (loss)	**$ (197)**	$2,201	**$ 4,071**	$ 6
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	**(61)**	59	**(169)**	
Change in unrealized appreciation (depreciation) of all other investments	**(857)**	(168)	**(3,309)**	4
Change in foreign currency translation adjustments	**(238)**	(78)	**(734)**	
Change in retirement plan liabilities adjustment	**92**	6	**148**	
Other comprehensive income (loss)	**(1,064)**	(181)	**(4,064)**	4
Comprehensive income (loss)	**(1,261)**	2,020	**7**	11
Comprehensive income (loss) attributable to noncontrolling interests	**33**	8	**30**	
Comprehensive income (loss) attributable to AIG	**$(1,294)**	$2,012	**$ (23)**	$11

See accompanying Notes to 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
Nine Months Ended September 30, 2015					
Balance, beginning of year	**$ 4,766**	**$ (19,218)**	**$ 80,958**	**$ 29,775**	**$ 10,617**
Purchase of common stock	**-**	**(7,663)**	**-**	**-**	**-**
Net income attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**4,037**	**-**
Dividends	**-**	**-**	**-**	**(687)**	**-**
Other comprehensive loss	**-**	**-**	**-**	**-**	**(4,060)**
Deferred income taxes	**-**	**-**	**(7)**	**-**	**-**
Net increase due to acquisitions and consolidations	**-**	**-**	**-**	**-**	**-**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**484**	**(3)**	**-**
Balance, end of period	**$ 4,766**	**$ (26,881)**	**$ 81,435**	**$ 33,122**	**$ 6,557**
Nine Months Ended September 30, 2014					
Balance, beginning of year	$ 4,766	$ (14,520)	$ 80,899	$ 22,965	$ 6,360
Purchase of common stock	-	(3,200)	-	-	-
Net income (loss) attributable to AIG or noncontrolling interests	-	-	-	6,874	-
Dividends	-	-	-	(539)	-
Other comprehensive income (loss)	-	-	-	-	4,971
Net decrease due to dispositions	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	5	-	-
Balance, end of period	$ 4,766	$ (17,720)	$ 80,904	$ 29,300	$ 11,331

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)*

Nine Months Ended September 30,		
(in millions)	**2015**	20
Cash flows from operating activities:		
Net income	**$ 4,071**	$ 6,84
Loss from discontinued operations	**-**	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	**(660)**	(60
Net (gain) loss on sale of divested businesses	**10**	(2,19
Losses on extinguishment of debt	**756**	1,0
Unrealized gains in earnings - net	**(550)**	(79
Equity in income from equity method investments, net of dividends or distributions	**(684)**	(1,10
Depreciation and other amortization	**3,502**	3,3
Impairments of assets	**886**	4
Changes in operating assets and liabilities:		
Insurance reserves	**(1,618)**	1
Premiums and other receivables and payables - net	**(389)**	
Reinsurance assets and funds held under reinsurance treaties	**1,396**	(6
Capitalization of deferred policy acquisition costs	**(4,376)**	(4,54
Current and deferred income taxes - net	**1,736**	2,2
Other, net	**(1,846)**	(51
Total adjustments	**(1,837)**	(2,50
Net cash provided by operating activities	**2,234**	4,3
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale investments	**20,846**	16,0
Other securities	**4,895**	3,9
Other invested assets	**7,015**	3,0
Divested businesses, net	**-**	2,3
Maturities of fixed maturity securities available for sale	**18,427**	18,6
Principal payments received on and sales of mortgage and other loans receivable	**3,298**	2,5
Purchases of:		
Available for sale investments	**(36,333)**	(34,63
Other securities	**(1,622)**	(30
Other invested assets	**(2,675)**	(3,20

Mortgage and other loans receivable	**(6,845)**	(4,94
Net change in restricted cash	**1,476**	(66
Net change in short-term investments	**(1,028)**	2,34
Other, net	**(774)**	(29
Net cash provided by investing activities	**6,680**	4,86
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**12,216**	12,31
Policyholder contract withdrawals	**(10,801)**	(11,03
Issuance of long-term debt	**6,449**	5,82
Repayments of long-term debt	**(8,343)**	(11,56
Purchase of Common Stock	**(7,473)**	(3,40
Dividends paid	**(687)**	(53
Other, net	**(425)**	(1,20
Net cash (used in) financing activities	**(9,064)**	(9,60
Effect of exchange rate changes on cash	**(39)**	(1
Net decrease in cash	**(189)**	(39
Cash at beginning of year	**1,758**	2,24
Change in cash of businesses held-for-sale	**-**	8
Cash at end of period	**$ 1,569**	$ 1,93

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,112**	$ 2,496
Taxes	**$ 406**	$ 614
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 2,801**	$ 3,007
Non-cash consideration received from sale of ILFC	**$ -**	$ 4,586
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, 2014 (2014 Annual Report). The condensed consolidated financial information as of December 31, 2014 included herein has been derived from audited Consolidated Financial Statements in the 2014 Annual Report.

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to September 30, 2015 and prior to the issuance of these Condensed Consolidated Financial Statements.

Sale of ILFC and shares of AerCap

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

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

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 investments in life settlements and goodwill impairment;
- liability for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2015

Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Reporting Discontinued Operations

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

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

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

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

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

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

Future Application of Accounting Standards

Revenue Recognition

In May 2014, the FASB issued an accounting standard that supersedes most existing revenue recognition guidance. The standard excludes from its scope the accounting for insurance contracts, leases, financial instruments, and 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 are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

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

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

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

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

Consolidation: Amendments to the Consolidation Analysis

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

The standard is effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The standard may be adopted prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We plan to adopt the standard on its required effective date of January 1, 2016 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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.

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

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present our operations by reportable segment:

		2015		
Three Months Ended September 30,		Total	Pre-Tax Operating	
(in millions)		Revenues	Income (Loss)	Reve
Commercial Insurance				
Property Casualty	$	5,715	$ 569	$
Mortgage Guaranty		266	162	
Institutional Markets		578	84	
Total Commercial Insurance		6,559	815	
Consumer Insurance				
Retirement		2,203	635	
Life		1,578	(40)	
Personal Insurance		2,871	62	
Total Consumer Insurance		6,652	657	
Corporate and Other*		109	(613)	
AIG consolidation and elimination		(141)	(11)	
Total AIG consolidated revenues and pre-tax operating income		13,179	848	1
Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income (loss):				
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense		4	4	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains		-	(2)	
Loss on extinguishment of debt		-	(346)	
Net realized capital gains (loss)		(342)	(342)	
Net gain (loss) on sale of divested businesses		-	(3)	
Non-operating litigation reserves and settlements		-	30	
Reserve development related to non-operating run-off insurance business		-	(30)	
Restructuring and other costs		-	(274)	
Other		(19)	-	
Revenues and pre-tax income (loss)	$	12,822	$ (115)	$ 1

	2015	
		Pre-Tax

Nine Months Ended September 30,	Total	Operating	
(in millions)	Revenues	Income (Loss)	Reve
Commercial Insurance			
Property Casualty	**$ 17,904**	**$ 2,931**	$ 1
Mortgage Guaranty	**791**	**464**	
Institutional Markets	**2,374**	**382**	
Total Commercial Insurance	**21,069**	**3,777**	2
Consumer Insurance			
Retirement	**7,056**	**2,239**	
Life	**4,823**	**280**	
Personal Insurance	**8,602**	**106**	
Total Consumer Insurance	**20,481**	**2,625**	2
Corporate and Other*	**2,270**	**(79)**	
AIG consolidation and elimination	**(416)**	**(80)**	
Total AIG consolidated revenues and pre-tax operating income	**43,404**	**6,243**	4

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income:				
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**(39)**	**(39)**	162	162
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	**-**	**(84)**	-	(90)
Loss on extinguishment of debt	**-**	**(756)**	-	(1,014)
Net realized capital gains	**1,125**	**1,125**	546	546
Net gain (loss) on sale of divested businesses	**(48)**	**(58)**	1,602	2,189
Non-operating litigation reserves and settlements	**91**	**86**	691	145
Reserve development related to non-operating run-off insurance business	**-**	**(30)**	-	-
Restructuring and other costs	**-**	**(274)**	-	-
Other	**(37)**	**-**	-	-
Revenues and pre-tax income	**$ 44,496**	**$ 6,213**	$ 48,996	$ 9,772

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

September 30, 2015 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting	Cash Collateral	
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 8	$ 1,874	$ -	$ -	$ -	$ 1
Obligations of states, municipalities and political subdivisions	-	25,406	2,140	-	-	27
Non-U.S. governments	709	17,688	31	-	-	18
Corporate debt	-	137,646	2,476	-	-	140
RMBS	-	18,766	16,859	-	-	35
CMBS	-	10,988	2,729	-	-	13
CDO/ABS	-	9,526	6,108	-	-	15
Total bonds available for sale	717	221,894	30,343	-	-	252
Other bond securities:						
U.S. government and government sponsored entities	155	3,658	-	-	-	3
Obligations of states, municipalities and political subdivisions	-	75	-	-	-	
Non-U.S. governments	-	2	-	-	-	
Corporate debt	-	1,233	16	-	-	1
RMBS	-	784	1,501	-	-	2
CMBS	-	600	219	-	-	
CDO/ABS	-	1,432	7,147	-	-	8
Total other bond securities	155	7,784	8,883	-	-	16
Equity securities available for sale:						
Common stock	2,961	-	-	-	-	2
Preferred stock	23	-	-	-	-	
Mutual funds	806	2	-	-	-	
Total equity securities available for sale	3,790	2	-	-	-	3
Other equity securities	1,044	-	22	-	-	1
Mortgage and other loans receivable	-	-	11	-	-	
Other invested assets	2	4,371	4,960	-	-	9
Derivative assets:						

Interest rate contracts	-	4,070	13	-	-	4
Foreign exchange contracts	-	836	-	-	-	
Equity contracts	121	14	40	-	-	
Commodity contracts	-	-	-	-	-	
Credit contracts	-	-	3	-	-	
Other contracts	-	-	27	-	-	
Counterparty netting and cash collateral	-	-	-	(1,691)	(2,129)	(3,
Total derivative assets	121	4,920	83	(1,691)	(2,129)	1
Short-term investments	1,032	1,701	-	-	-	2
Separate account assets	72,370	4,766	-	-	-	77
Total	$ 79,231	$245,438	$ 44,302	$ (1,691)	$(2,129)	$365
Liabilities:						
Policyholder contract deposits	$ -	$ 38	$ 2,249	$ -	$ -	$ 2
Other policyholder funds	-	8	-	-	-	

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative liabilities:						
Interest rate contracts	-	2,787	71	-	-	2,858
Foreign exchange contracts	-	1,208	7	-	-	1,215
Equity contracts	-	82	1	-	-	83
Commodity contracts	-	-	-	-	-	-
Credit contracts	-	-	531	-	-	531
Other contracts	-	1	78	-	-	79
Counterparty netting and cash collateral	-	-	-	(1,691)	(910)	(2,601)
Total derivative liabilities	-	4,078	688	(1,691)	(910)	2,165
Long-term debt	-	3,795	190	-	-	3,985
Other liabilities	116	182	-	-	-	298
Total	$ 116	$ 8,101	$ 3,127	$ (1,691)	$ (910)	$ 8,743

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

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

During the three- and nine-month periods ended September 30, 2015, we transferred $188 million and $450 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the nine-month period ended September 30, 2015, we transferred $180 million of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2, while we had no material transfers of these securities from Level 1 to Level 2 during the three-month period ended September 30, 2015. We had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2015.

During the three- and nine-month periods ended September 30, 2014, we transferred $32 million and $330 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, because they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2014, we transferred $4 million and $107 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 nine-month periods ended September 30, 2014.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and nine-month periods ended September 30, 2015 and 2014 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at September 30, 2015 and 2014:

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe
Three Months Ended September 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,180	$ (1)	$ (15)	$ 16	$
Non-U.S. governments	33	-	(1)	(1)	
Corporate debt	2,118	5	2	(63)	9
RMBS	17,097	265	(151)	(352)	
CMBS	2,677	17	(15)	50	
CDO/ABS	6,071	8	57	(21)	
Total bonds available for sale	30,176	294	(123)	(371)	9
Other bond securities:					
Corporate debt	16	-	-	-	
RMBS	1,337	(4)	-	169	
CMBS	223	(1)	-	(8)	
CDO/ABS	7,426	85	-	(415)	
Total other bond securities	9,002	80	-	(254)	
Equity securities available for sale:					
Common stock	-	-	-	-	
Total equity securities available for sale	-	-	-	-	
Other equity securities	22	-	-	-	
Mortgage and other loans receivable	6	-	-	5	
Other invested assets	5,075	(52)	(90)	64	

Total	$	44,281	$	322	$	(213)	$	(556)	$ 1,0
Liabilities:									
Policyholder contract deposits	$	(1,232)	$	(871)	$	-	$	(146)	$
Derivative liabilities, net:									
Interest rate contracts		(62)		(3)		-		7	
Foreign exchange contracts		(7)		(1)		-		1	
Equity contracts		63		(21)		-		(3)	
Commodity contracts		-		-		-		-	
Credit contracts		(551)		11		-		12	
Other contracts		(16)		(12)		-		(23)	
Total derivative liabilities, net[(a)]		(573)		(26)		-		(6)	
Long-term debt[(b)]		(193)		3		-		-	
Total	$	(1,998)	$	(894)	$	-	$	(152)	$

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Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair Value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gr Transf
Nine Months Ended September 30, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,159	$ -	$ (94)	$ 174	$
Non-U.S. governments	30	-	(2)	3	
Corporate debt	1,883	19	(31)	(209)	1,4
RMBS	16,805	804	(322)	(428)	
CMBS	2,696	63	(45)	97	
CDO/ABS	6,110	138	(110)	98	
Total bonds available for sale	29,683	1,024	(604)	(265)	1,4
Other bond securities:					
Corporate debt	-	-	-	-	
RMBS	1,105	22	-	389	
CMBS	369	7	-	(162)	
CDO/ABS	7,449	482	-	(1,341)	6
Total other bond securities	8,923	511	-	(1,114)	6
Equity securities available for sale:					
Common stock	1	2	-	(3)	
Total equity securities available for sale	1	2	-	(3)	
Other equity securities	-	-	-	-	
Mortgage and other loans receivable	6	-	-	5	
Other invested assets	5,650	475	(639)	(522)	1
Total	$ 44,263	$ 2,012	$ (1,243)	$ (1,899)	$ 2,2
Liabilities:					
Policyholder contract deposits	$ (1,509)	$ (410)	$ -	$ (330)	$
Derivative liabilities, net:					
Interest rate contracts	(74)	(3)	-	19	
Foreign exchange contracts	(8)	2	-	(1)	
Equity contracts	47	(15)	-	7	
Commodity contracts	-	-	-	-	

Credit contracts		(978)		171	-		279
Other contracts		(59)		61	-		(53)
Total derivative liabilities, net[(a)]		(1,072)		216	-		251
Long-term debt[(b)]		(213)		5	-		18
Total	$	(2,794)	$	(189)	$ -	$	(61) $

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Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	G Trans
Three Months Ended September 30, 2014					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 1,991	$ (1)	$ (11)	$ 43	$
Non-U.S. governments	25	-	-	1	
Corporate debt	2,196	2	(22)	(73)	
RMBS	16,328	264	(49)	375	
CMBS	5,917	27	(39)	14	
CDO/ABS	7,431	18	(2)	692	
Total bonds available for sale	33,888	310	(123)	1,052	
Other bond securities:					
RMBS	1,062	-	-	(39)	
CMBS	757	(24)	-	(20)	
CDO/ABS	8,397	257	-	(451)	
Total other bond securities	10,216	233	-	(510)	
Equity securities available for sale:					
Common stock	-	-	1	-	
Preferred stock	-	-	-	-	
Mutual funds	-	-	-	-	
Total equity securities available for sale	-	-	1	-	
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	5,824	(7)	90	65	
Total	$ 49,934	$ 536	$ (32)	$ 607	$
Liabilities:					
Policyholder contract deposits	$ (842)	$ (155)	$ 8	$ (2)	$
Derivative liabilities, net:					
Interest rate contracts	(67)	(3)	-	1	
Foreign exchange contracts	(9)	-	-	2	
Equity contracts	91	6	-	2	
Commodity contracts	1	(1)	-	-	

Credit contracts		(1,085)		75		-		(8)
Other contracts		(53)		14		4		(20)
Total derivatives liabilities, net[a]		(1,122)		91		4		(23)
Long-term debt[b]		(394)		21		-		1
Total	$	(2,358)	$	(43)	$	12	$	(24) $

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)		Fair value Beginning of Period		Net Realized and Unrealized Gains (Losses) Included in Income		Other Comprehensive Income (Loss)		Purchases, Sales, Issues and Settlements, Net		Gr Transf
Nine Months Ended September 30, 2014										
Assets:										
Bonds available for sale:										
Obligations of states, municipalities and political subdivisions[c]	$	1,080	$	(1)	$	180	$	896	$	
Non-U.S. governments		16		-		(1)		7		
Corporate debt		1,255		8		31		(140)		1,3
RMBS		14,941		759		211		999		1
CMBS		5,735		50		201		(43)		
CDO/ABS		6,974		70		1		1,426		2
Total bonds available for sale		30,001		886		623		3,145		1,7
Other bond securities:										
RMBS		937		51		-		33		
CMBS		844		14		-		(151)		
CDO/ABS		8,834		926		-		(1,338)		
Total other bond securities		10,615		991		-		(1,456)		
Equity securities available for sale:										
Common stock		1		-		1		-		
Preferred stock		-		-		-		-		
Mutual funds		-		-		-		-		
Total equity securities available for sale		1		-		1		-		
Mortgage and other loans receivable		-		-		-		6		
Other invested assets		5,930		80		139		99		1
Total	$	46,547	$	1,957	$	763	$	1,794	$	1,9
Liabilities:										
Policyholder contract deposits	$	(312)	$	(687)	$	(16)	$	24	$	
Derivative liabilities, net:										
Interest rate contracts		(100)		(2)		-		33		
Foreign exchange contracts		-		3		-		(10)		
Equity contracts		49		14		-		(12)		
Commodity contracts		1		-		-		-		

Credit contracts	(1,280)	229	-	33	
Other contracts	(109)	49	51	(46)	
Total derivatives liabilities, net[(a)]	(1,439)	293	51	(2)	
Long-term debt[(b)]	(370)	13	-	34	(
Total	$ (2,121)	$ (381)	$ 35	$ 56	$ (

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
Three Months Ended September 30, 2015				
Bonds available for sale	**$ 304**	**$ (15)**	**$ 5**	**$ 294**
Other bond securities	**7**	**-**	**73**	**80**
Equity securities available for sale	**-**	**-**	**-**	**-**
Other invested assets	**(25)**	**(22)**	**(5)**	**(52)**
Policyholder contract deposits	**-**	**(871)**	**-**	**(871)**
Derivative liabilities, net	**-**	**(17)**	**(9)**	**(26)**
Long-term debt	**-**	**-**	**3**	**3**
Three Months Ended September 30, 2014				
Bonds available for sale	$ 320	$ (22)	$ 12	$ 310
Other bond securities	(3)	-	236	233
Equity securities available for sale	-	-	-	-
Other invested assets	18	(20)	(5)	(7)
Policyholder contract deposits	-	(155)	-	(155)
Derivative liabilities, net	18	(1)	74	91
Long-term debt	-	-	21	21
Nine Months Ended September 30, 2015				
Bonds available for sale	**$ 926**	**$ (14)**	**$ 112**	**$ 1,024**
Other bond securities	**48**	**3**	**460**	**511**
Equity securities available for sale	**-**	**2**	**-**	**2**
Other invested assets	**61**	**355**	**59**	**475**
Policyholder contract deposits	**-**	**(410)**	**-**	**(410)**
Derivative liabilities, net	**-**	**(12)**	**228**	**216**
Long-term debt	**-**	**-**	**5**	**5**
Nine Months Ended September 30, 2014				
Bonds available for sale	$ 922	$ (73)	$ 37	$ 886
Other bond securities	97	2	892	991
Equity securities available for sale	-	-	-	-
Other invested assets	107	(33)	6	80
Policyholder contract deposits	-	(687)	-	(687)
Derivative liabilities, net	49	4	240	293

Long-term debt	-	-	13	13

The following tables present the gross components of purchases, sales, issues and settlements, net, shown above, for the three- and nine-month periods ended September 30, 2015 and 2014 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 September 30, 2015				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 35**	**$ -**	**$ (19)**	**$ 1**
Non-U.S. governments	**3**	**(1)**	**(3)**	**(**
Corporate debt	**32**	**-**	**(95)**	**(6**

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

RMBS		**449**		**(29)**		**(772)**		**(35**
CMBS		**50**		**-**		**-**		**5**
CDO/ABS		**160**		**(9)**		**(172)**		**(2**
Total bonds available for sale		**729**		**(39)**		**(1,061)**		**(37**
Other bond securities:								
RMBS		**218**		**(6)**		**(43)**		**1**
CMBS		**-**		**-**		**(8)**		**(**
CDO/ABS		**10**		**(5)**		**(420)**		**(41**
Total other bond securities		**228**		**(11)**		**(471)**		**(25**
Equity securities available for sale		**-**		**-**		**-**		
Mortgage and other loans receivable		**5**		**-**		**-**		
Other invested assets		**193**		**-**		**(129)**		**(**
Total assets	**$**	**1,155**	**$**	**(50)**	**$**	**(1,661)**	**$**	**(55**
Liabilities:								
Policyholder contract deposits	**$**	**-**	**$**	**(122)**	**$**	**(24)**	**$**	**(14**
Derivative liabilities, net		**1**		**-**		**(7)**		**(**
Long-term debt[(b)]		**-**		**-**		**-**		
Total liabilities	**$**	**1**	**$**	**(122)**	**$**	**(31)**	**$**	**(15**
Three Months Ended September 30, 2014								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$	66	$	(3)	$	(20)	$	4
Non-U.S. governments		1		-		-		
Corporate debt		22		-		(95)		(7
RMBS		1,062		(62)		(625)		37
CMBS		276		(167)		(95)		1
CDO/ABS		1,085		(68)		(325)		69
Total bonds available for sale		2,512		(300)		(1,160)		1,05
Other bond securities:								
RMBS		-		(3)		(36)		(3
CMBS		-		(9)		(11)		(2
CDO/ABS		6		(4)		(453)		(45
Total other bond securities		6		(16)		(500)		(51
Equity securities available for sale		-		-		-		
Other invested assets		276		-		(211)		(

Total assets	$ 2,794	$ (316)	$ (1,871)	$ 60
Liabilities:				
Policyholder contract deposits	$ -	$ (36)	$ 34	$ (
Derivative liabilities, net	-	(2)	(21)	(2
Long-term debt[(b)]	-	-	1	
Total liabilities	$ -	$ (38)	$ 14	$ (2
(in millions)	Purchases	Sales	Settlements	Purchase Sales, Issues ar Settlements, Net
Nine Months Ended September 30, 2015				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 258**	**$ (22)**	**$ (62)**	**$ 17**
Non-U.S. governments	**11**	**(1)**	**(7)**	
Corporate debt	**220**	**(60)**	**(369)**	**(20**

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RMBS	**1,856**	**(194)**	**(2,090)**	**(428)**
CMBS	**192**	**(27)**	**(68)**	**97**
CDO/ABS	**1,021**	**(210)**	**(713)**	**98**
Total bonds available for sale	**3,558**	**(514)**	**(3,309)**	**(265)**
Other bond securities:				
RMBS	**527**	**(16)**	**(122)**	**389**
CMBS	**-**	**(79)**	**(83)**	**(162)**
CDO/ABS	**236**	**(376)**	**(1,201)**	**(1,341)**
Total other bond securities	**763**	**(471)**	**(1,406)**	**(1,114)**
Equity securities available for sale	**-**	**(2)**	**(1)**	**(3)**
Mortgage and other loans receivable	**5**	**-**	**-**	**5**
Other invested assets	**497**	**(587)**	**(432)**	**(522)**
Total assets	**$ 4,823**	**$ (1,574)**	**$ (5,148)**	**$ (1,899)**
Liabilities:				
Policyholder contract deposits	**$ -**	**$ (307)**	**$ (23)**	**$ (330)**
Derivative liabilities, net	**18**	**-**	**233**	**251**
Long-term debt[(b)]	**-**	**-**	**18**	**18**
Total liabilities	**$ 18**	**$ (307)**	**$ 228**	**$ (61)**
Nine Months Ended September 30, 2014				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions[(c)]	$ 1,002	$ (35)	$ (71)	$ 896
Non-U.S. governments	8	-	(1)	7
Corporate debt	141	(8)	(273)	(140)
RMBS	2,814	(88)	(1,727)	999
CMBS	368	(224)	(187)	(43)
CDO/ABS	2,307	(70)	(811)	1,426
Total bonds available for sale	6,640	(425)	(3,070)	3,145
Other bond securities:				
RMBS	162	(22)	(107)	33
CMBS	-	(15)	(136)	(151)
CDO/ABS	50	(19)	(1,369)	(1,338)
Total other bond securities	212	(56)	(1,612)	(1,456)
Equity securities available for sale	-	-	-	-
Mortgage and other loans receivable	6	-	-	6

Other invested assets		709		(1)		(609)		99
Total assets	$	7,567	$	(482)	$	(5,291)	$	1,794
Liabilities:								
Policyholder contract deposits	$	-	$	(94)	$	118	$	24
Derivative liabilities, net		1		(2)		(1)		(2)
Long-term debt[b]		-		-		34		34
Total liabilities	$	1	$	(96)	$	151	$	56

(a) There were no issuances during the three- and nine-month periods ended September 30, 2015 and 2014, respectively.

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

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

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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 September 30, 2015 and 2014 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 classification at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excludes $17 million and $35 million of net gains related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2015, respectively, and includes $3 million and $6 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2015, respectively.

The Net realized and unrealized gains (losses) included in income (loss) or Other comprehensive income (loss) as shown in the table above excludes $2 million of net losses and $35 million of net gains related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2014, respectively, and includes $52 million and $50 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2014, respectively.

Transfers of Level 3 Assets

During the three- and nine-month periods ended September 30, 2015 and 2014, transfers into Level 3 assets primarily included certain investments in RMBS, CDO/ABS and private placement corporate debt. The transfers of investments in RMBS and CDO/ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types. Transfers of investments in private placement corporate debt into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity.

During the three- and nine-month periods ended September 30, 2015 and 2014, transfers out of Level 3 assets primarily related to certain investments in corporate debt, RMBS, CDO/ABS, and investments in hedge funds. Transfers of certain investments in corporate debt, RMBS, and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. The transfers of certain hedge fund investments out of Level 3 assets were primarily the result of easing of certain fund-imposed redemption restrictions.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three- and nine-month periods ended September 30, 2015 and 2014.

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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 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 September 30, 2015**	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	**$**	**1,199**	Discounted cash flow	Yield[(b)]	4.34% - 5.16% (4.75%)
Corporate debt		**1,506**	Discounted cash flow	Yield[(b)]	3.91% - 5.80% (4.85%)
RMBS		**17,609**	Discounted cash flow	Constant prepayment rate[(a)(c)]	0.93% - 8.91% (4.92%)
				Loss severity[(a)(c)]	45.29% - 77.96% (61.63%)
				Constant default rate[(a)(c)]	3.47% - 9.01% (6.24%)
				Yield[(c)]	3.02% - 5.96% (4.49%)
CDO/ABS		**3,217**	Discounted cash flow	Yield[(c)]	2.79% - 4.33% (3.56%)

CMBS	**2,656**	Discounted cash flow	Yield[b]	0.00% - 18.45% (6.07%)
Liabilities:				
Policyholder contract deposits				
GMWB	**1,392**	Discounted cash flow	Equity implied volatility[b]	6.00% - 39.00%[d]
			Base lapse rate[b]	0.50% - 30.00%[d]
			Dynamic lapse rate[b]	0.07% - 45.00%[d]
			Mortality rate[b]	0.05% - 35.00%[d]
			Utilization rate[b]	1.00% - 65.00%[d]
Index Annuities	**556**	Discounted cash flow	Lapse rate	0.75% - 66.00%[d]
			Mortality rate	0.02% - 44.06%[d]
Indexed Life	**295**	Discounted cash flow	Equity implied volatility	10.00% to 25.00%[d]
			Base lapse rate	2.00% to 19.00%[d]
			Mortality rate	0.00% to 20.00%[d]

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(in millions)		Fair Value at December 31, 2014	Valuation Technique	Unobservable Input	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	$	1,178	Discounted cash flow	Yield[b]	3.9% - 4.62% (4.26%)
Corporate debt		1,145	Discounted cash flow	Yield[b]	3.46% - 8.75% (6.10%)
RMBS		17,353	Discounted cash flow	Constant prepayment rate[a][c]	0.59% - 9.35% (4.97%)
				Loss severity[a][c]	46.04% - 79.56% (62.80%)
				Constant default rate[a][c]	3.67% - 9.96% (6.82%)
				Yield[c]	2.67% - 6.64% (4.65%)
CDO/ABS		5,282	Discounted cash flow	Yield[c]	4.70% - 9.70% (7.10%)
CMBS		2,687	Discounted cash flow	Yield[b]	0.00% - 17.29% (6.06%)
Liabilities:					
Policyholder contract deposits					
GMWB		890	Discounted cash flow	Equity implied volatility[b]	6.00% - 39.00%[d]
				Base lapse rate[b]	1.00% - 40.00%[d]
				Dynamic lapse rate[b]	0.20% - 60.00%[d]
				Mortality rate[b]	0.10% - 35.00%[d]

			Utilization rate[b]	0.50% - 30.00%[d]
Index Annuities	294	Discounted cash flow	Lapse rate	0.75% - 66.00%[d]
			Mortality rate	0.02% - 44.06%[d]
Indexed Life	259	Discounted cash flow	Equity implied volatility	10.00% to 25.00%[d]
			Base lapse rate	2.00% to 19.00%[d]
			Mortality rate	0.00% to 20.00%[d]
Total derivative liabilities, net[e]	791	BET	Recovery rate[b]	5.00% - 23.00% (13.00%)
			Diversity score[b]	8 - 25 (13)
			Weighted average life[b]	2.67 - 10.49 years (4.65 years)

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

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

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

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

(e) Beginning in the third quarter of 2015, we have begun valuing these transactions using prices obtained from vendors and/or counterparties and discontinued use of the BET model.

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The ranges of reported inputs for 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 investments.

Sensitivity to Changes in Unobservable Inputs

We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available to us about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The following 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 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.

Policyholder contract deposits

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

Derivative liabilities – credit contracts

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

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

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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 and hedge funds that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring basis, we use the net asset value per share to measure fair value**.**

		September 30, 2015		December 31, 2014	
(in millions)	Investment Category Includes	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 1,941**	**$ 423**	$ 2,275	$ 450
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**328**	**202**	384	227
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public	**118**	**53**	121	26

	offering or sale of the company				
Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	**158**	**42**	164	43
Other	Includes multi-strategy, mezzanine and other strategies	**288**	**260**	216	234
Total private equity funds		**2,833**	**980**	3,160	980
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**1,242**	**-**	1,109	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**2,998**	**8**	2,428	1
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**552**	**-**	498	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**736**	**10**	731	5
Emerging markets	Investments in the financial markets of developing countries	**358**	**-**	308	-
Other	Includes multi-strategy, relative value and other strategies	**162**	**-**	125	-
Total hedge funds		**6,048**	**18**	5,199	6
Total		**$ 8,881**	**$ 998**	$ 8,359	$ 986

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 September 30, 2015, assuming average original expected lives of 10 years for the funds, 82 percent of the total fair value using net asset value per share (or its equivalent) presented above would have expected remaining lives of three years or less, 5 percent between four and six years and 13 percent between seven and 10 years.

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The hedge fund investments included above are generally redeemable monthly (14 percent), quarterly (48 percent), semi annually (14 percent) and annually (24 percent), with redemption notices ranging from one day to 180 days. At September 30, 2015, however, investments representing approximately 45 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various contractual restrictions. The majority of these contractual restrictions, which may have been put in place at the fund's inception or thereafter, have pre defined end dates and are generally expected to be lifted by the end of 2016. The fund investments for which redemption is restricted only in part generally relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

Fair Value Option

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

	Gain (Loss) Three Months Ended September 30,		Gain (Loss) Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Assets:				
Bond and equity securities	**$ (106)**	$ 252	**$ 495**	$ 1,529
Alternative Investments[(a)]	**(115)**	73	**148**	245
Other, including Short-term investments	**-**	2	**2**	7
Liabilities:				
Long-term debt[(b)]	**(144)**	23	**(89)**	(186)
Other liabilities	**-**	(4)	**(3)**	(10)
Total gain (loss)	**$ (365)**	$ 346	**$ 553**	$ 1,585

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

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

We recognized losses of $18 million and $7 million during the three- and nine-month periods ended September 30, 2015, respectively, and gains of $8 million and losses of $14 million during the three- and nine-month periods ended September 30, 2014, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	September 30, 2015			December 31, 2014		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 11**	**$ 9**	**$ 2**	$ 6	$ 4	$ 2
Liabilities:						
Long-term debt*	**$ 3,985**	**$ 2,883**	**$ 1,102**	$ 5,466	$ 4,101	$ 1,365

* 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 September 30,		Nine Months Ended September 30,	
(in millions)	Level 1	Level 2	Level 3	Total	**2015**	2014	**2015**	2014
September 30, 2015								
Other investments	**$ -**	**$ -**	**$ 986**	**$ 986**	**$ 22**	$ 62	**$ 74**	$ 117
Investments in life settlements	**-**	**-**	**633**	**633**	**58**	52	**200**	139
Other assets	**-**	**-**	**12**	**12**	**4**	1	**12**	2
Total	**$ -**	**$ -**	**$ 1,631**	**$ 1,631**	**$ 84**	$ 115	**$ 286**	$ 258
December 31, 2014								
Other investments	$ -	$ -	$ 790	$ 790				
Investments in life settlements	-	-	537	537				
Other assets	-	-	1	1				
Total	$ -	$ -	$ 1,328	$ 1,328				

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
September 30, 2015					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 202**	**$ 29,134**	**$ 29,336**	**$ 28,225**
Other invested assets	**-**	**486**	**3,000**	**3,486**	**4,338**

Short-term investments	**-**	**9,675**	**-**	**9,675**	**9,675**
Cash	**1,569**	**-**	**-**	**1,569**	**1,569**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**268**	**115,672**	**115,940**	**107,422**
Other liabilities	**-**	**1,756**	**-**	**1,756**	**1,756**
Long-term debt	**-**	**22,993**	**4,742**	**27,735**	**26,734**
December 31, 2014					
Assets:					
Mortgage and other loans receivable	$ -	$ 449	$ 26,157	$ 26,606	$ 24,984
Other invested assets	-	593	2,882	3,475	4,352
Short-term investments	-	9,559	-	9,559	9,559
Cash	1,758	-	-	1,758	1,758
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	244	119,268	119,512	106,395
Other liabilities	-	1,120	-	1,120	1,120
Long-term debt	-	24,749	2,932	27,681	25,751

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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
September 30, 2015					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 1,705**	**$ 179**	**$ (2)**	**$ 1,882**	**$**
Obligations of states, municipalities and political subdivisions	**26,305**	**1,361**	**(120)**	**27,546**	
Non-U.S. governments	**17,940**	**818**	**(330)**	**18,428**	
Corporate debt	**134,852**	**8,032**	**(2,762)**	**140,122**	
Mortgage-backed, asset-backed and collateralized:					
RMBS	**32,891**	**3,046**	**(312)**	**35,625**	
CMBS	**13,014**	**775**	**(72)**	**13,717**	
CDO/ABS	**15,278**	**505**	**(149)**	**15,634**	
Total mortgage-backed, asset-backed and collateralized	**61,183**	**4,326**	**(533)**	**64,976**	
Total bonds available for sale[(b)]	**241,985**	**14,716**	**(3,747)**	**252,954**	
Equity securities available for sale:					
Common stock	**986**	**1,993**	**(18)**	**2,961**	
Preferred stock	**19**	**4**	**-**	**23**	
Mutual funds	**801**	**43**	**(36)**	**808**	
Total equity securities available for sale	**1,806**	**2,040**	**(54)**	**3,792**	
Total	**$ 243,791**	**$ 16,756**	**$ (3,801)**	**$ 256,746**	**$**
December 31, 2014					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 2,806	$ 204	$ (18)	$ 2,992	$
Obligations of states, municipalities and political subdivisions	25,979	1,729	(49)	27,659	
Non-U.S. governments	20,280	966	(151)	21,095	

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

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

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(b) At September 30, 2015 and December 31, 2014, bonds available for sale held by us that were below investment grade or not rated totaled $35.4 billion and $35.1 billion, respectively.

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gr Unreali Los
September 30, 2015						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 121**	**$ 2**	**$ 1**	**$ -**	**$ 122**	**$**
Obligations of states, municipalities and political subdivisions	**3,190**	**103**	**259**	**17**	**3,449**	
Non-U.S. governments	**4,140**	**194**	**725**	**136**	**4,865**	
Corporate debt	**32,818**	**1,858**	**4,664**	**904**	**37,482**	**2,**
RMBS	**5,056**	**82**	**4,146**	**230**	**9,202**	
CMBS	**2,239**	**46**	**571**	**26**	**2,810**	
CDO/ABS	**4,686**	**44**	**2,018**	**105**	**6,704**	
Total bonds available for sale	**52,250**	**2,329**	**12,384**	**1,418**	**64,634**	**3,**
Equity securities available for sale:						
Common stock	**96**	**18**	**6**	**-**	**102**	
Mutual funds	**297**	**28**	**16**	**8**	**313**	
Total equity securities available for sale	**393**	**46**	**22**	**8**	**415**	
Total	**$ 52,643**	**$ 2,375**	**$ 12,406**	**$ 1,426**	**$ 65,049**	**$ 3,**
December 31, 2014						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 526	$ 5	$ 281	$ 13	$ 807	$
Obligations of states, municipalities and political subdivisions	495	9	794	40	1,289	
Non-U.S. governments	1,606	42	1,690	109	3,296	
Corporate debt	12,132	450	11,570	672	23,702	1,

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

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At September 30, 2015, we held 12,631 and 198 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,966 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 September 30, 2015 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

September 30, 2015	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 10,295	$ 10,412	$ 945	$ 926
Due after one year through five years	46,854	49,320	7,176	6,915
Due after five years through ten years	55,985	57,443	17,681	16,601
Due after ten years	67,668	70,803	23,330	21,476
Mortgage-backed, asset-backed and collateralized	61,183	64,976	19,249	18,716
Total	$ 241,985	$ 252,954	$ 68,381	$ 64,634
December 31, 2014				
Due in one year or less	$ 9,821	$ 9,975	$ 637	$ 620
Due after one year through five years	48,352	50,873	6,669	6,529
Due after five years through ten years	62,685	65,889	12,873	12,338
Due after ten years	63,168	69,442	10,255	9,607
Mortgage-backed, asset-backed and collateralized	59,281	63,680	17,120	16,641
Total	$ 243,307	$ 259,859	$ 47,554	$ 45,735

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2015		2014		**2015**		2014	
(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	**$ 96**	**$ 112**	$ 118	$ 21	**$ 439**	**$ 289**	$ 528	$ 65
Equity securities	**24**	**8**	33	4	**544**	**16**	102	10
Total	**$ 120**	**$ 120**	$ 151	$ 25	**$ 983**	**$ 305**	$ 630	$ 75

For the three- and nine-month periods ended September 30, 2015, the aggregate fair value of available for sale securities sold was $6.9 billion and $20.9 billion, respectively, which resulted in net realized capital gains of zero and $0.7 billion, respectively.

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For the three- and nine-month periods ended September 30, 2014, the aggregate fair value of available for sale securities sold was $4.2 billion and $16.2 billion, respectively, which resulted in net realized capital gains of $0.1 billion and $0.5 billion, respectively.

Other Securities Measured at Fair Value

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

	September 30, 2015		December 31, 2014	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	**$ 3,813**	**21 %**	$ 5,498	27%
Obligations of states, municipalities and political subdivisions	**75**	**-**	122	1
Non-U.S. governments	**2**	**-**	2	-
Corporate debt	**1,249**	**7**	719	3
Mortgage-backed, asset-backed and collateralized:				
RMBS	**2,285**	**13**	2,094	10
CMBS	**819**	**5**	1,077	5
CDO/ABS and other collateralized*	**8,579**	**48**	10,200	49
Total mortgage-backed, asset-backed and collateralized	**11,683**	**66**	13,371	64
Total fixed maturity securities	**16,822**	**94**	19,712	95
Equity securities	**1,066**	**6**	1,049	5
Total	**$ 17,888**	**100 %**	$ 20,761	100%

* Includes $748 million and $859 million of U.S. Government agency-backed ABS at September 30, 2015 and December 31, 2014, respectively.

Net Investment Income

The following table presents the components of Net investment income:

Three Months Ended	Nine Months Ended

	September 30,		September 30,	
(in millions)	**2015**	2014	**2015**	2014
Fixed maturity securities, including short-term investments	**$ 2,794**	$ 3,022	**$ 8,477**	$ 9,264
Equity securities	**(5)**	135	**76**	67
Interest on mortgage and other loans	**360**	318	**1,046**	947
Alternative investments*	**88**	636	**1,471**	2,108
Real estate	**66**	25	**116**	86
Other investments	**36**	25	**86**	34
Total investment income	**3,339**	4,161	**11,272**	12,506
Investment expenses	**133**	133	**402**	398
Net investment income	**$ 3,206**	$ 4,028	**$ 10,870**	$ 12,108

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

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Net Realized Capital Gains and Losses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Sales of fixed maturity securities	**$ (16)**	$ 97	**$ 150**	$ 463
Sales of equity securities	**16**	29	**528**	92
Other-than-temporary impairments:				
Severity	**(10)**	-	**(12)**	-
Change in intent	**(81)**	(14)	**(193)**	(20)
Foreign currency declines	**(5)**	(3)	**(37)**	(13)
Issuer-specific credit events	**(176)**	(31)	**(314)**	(124)
Adverse projected cash flows	**(1)**	(2)	**(9)**	(7)
Provision for loan losses	**32**	(11)	**43**	9
Foreign exchange transactions	**(16)**	350	**304**	329
Derivative instruments	**13**	102	**509**	(114)
Impairments on investments in life settlements	**(58)**	(52)	**(200)**	(139)
Other	**(40)**	71	**356** *	70
Net realized capital gains (losses)	**$ (342)**	$ 536	**$ 1,125**	$ 546

* Includes realized gains due to the sale of Class B shares of Prudential Financial, Inc. and common shares of Springleaf Holdings, Inc. and realized losses on the sale of ordinary shares of AerCap.

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 September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Increase (decrease) in unrealized appreciation (depreciation) of investments:				

Fixed maturity securities	**$ (1,180)**	$ (1,515)	**$ (5,583)**	$ 6,123
Equity securities	**(384)**	303	**(479)**	348
Other investments	**(85)**	94	**(625)**	127
Total Increase (decrease) in unrealized appreciation (depreciation) of investments	**$ (1,649)**	$ (1,118)	**$ (6,687)**	$ 6,598

Evaluating Investments for Other-Than-Temporary Impairments

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

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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 September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Balance, beginning of period	**$ 2,238**	$ 3,166	**$ 2,659**	$ 3,872
Increases due to:				
Credit impairments on new securities subject to impairment losses	**51**	13	**101**	35
Additional credit impairments on previously impaired securities	**37**	5	**84**	59
Reductions due to:				
Credit impaired securities fully disposed of for which there was no prior intent or requirement to sell	**(63)**	(116)	**(213)**	(528)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	**(1)**	-	**(1)**	-
Accretion on securities previously impaired due to credit*	**(197)**	(183)	**(565)**	(544)
Other	**-**	-	**-**	(9)
Balance, end of period	**$ 2,065**	$ 2,885	**$ 2,065**	$ 2,885

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

Purchased Credit Impaired (PCI) Securities

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

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

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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)	$ 32,656
Cash flows expected to be collected*	26,444
Recorded investment in acquired securities	17,662

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

(in millions)	September 30, 2015	December 31, 2014
Outstanding principal balance	$ 17,017	$ 16,962
Amortized cost	12,408	12,216
Fair value	13,426	13,462

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2015	2014	2015	2014
Balance, beginning of period	$ 6,833	$ 7,042	$ 6,865	$ 6,940
Newly purchased PCI securities	136	358	551	1,127
Disposals	-	-	(13)	-
Accretion	(220)	(223)	(661)	(654)
Effect of changes in interest rate indices	4	(96)	(140)	(327)
Net reclassification from (to) non-accretable difference, including effects of prepayments	180	30	331	25
Balance, end of period	$ 6,933	$ 7,111	$ 6,933	$ 7,111

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. At September 30, 2015, 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.

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

(in millions)		**September 30, 2015**		December 31, 2014
Fixed maturity securities available for sale	**$**	**996**	$	-
Other bond securities, at fair value	**$**	**994**	$	2,122

At September 30, 2015, amounts borrowed under repurchase and securities lending agreements totaled $1.9 billion.

At September 30, 2015, outstanding overnight and continuous repurchase agreements were collateralized by U.S. government bond securities, at fair value, of $155 million. Repurchase agreements with remaining contractual maturities of 31 - 90 days, 91 - 364 days and 365 days or greater were collateralized by Corporate bond securities, at fair value, of $73 million, $690 million, and $76 million, respectively. Repurchase agreements with remaining contractual maturities up to 30 days were collateralized by U.S. government bond securities, available for sale, of $15 million.

Securities lending agreements outstanding at September 30, 2015 had remaining contractual maturities of 31 - 90 days and the securities pledged to counterparties included $856 million of Corporate bond securities and $125 million of Non-U.S. government securities, all classified as available for sale.

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)		**September 30, 2015**		December 31, 2014
Securities collateral pledged to us	**$**	**2,969**	$	2,506
Amount sold or repledged by us	**$**	**126**	$	131

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 $5.5 billion and $5.9 billion at September 30, 2015 and December 31, 2014, 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 $48 million and $44 million of stock in FHLBs at September 30, 2015 and December 31, 2014, respectively. In addition, our subsidiaries have pledged securities available for sale with a fair value of $1.2 billion and $0.5 billion at September 30, 2015 and December 31, 2014, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of

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securities pledged as collateral with respect to these obligations was approximately $2.6 billion and $3.5 billion at September 30, 2015 and December 31, 2014, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

At September 30, 2015, $391 million of short-term investments were held in escrow accounts or were otherwise subject to restriction as to their use.

6. LENDING ACTIVITIES

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

(in millions)	September 30, 2015	December 31, 2014
Commercial mortgages*	$ 20,818	$ 18,909
Life insurance policy loans	2,625	2,710
Commercial loans, other loans and notes receivable	4,999	3,642
Total mortgage and other loans receivable	28,442	25,261
Allowance for losses	(206)	(271)
Mortgage and other loans receivable, net	$ 28,236	$ 24,990

* Commercial mortgages primarily represent loans for offices, retail, apartments and industrial properties, with exposures in California and New York representing the largest geographic concentrations (aggregating approximately 12 percent and 21 percent, respectively, at September 30, 2015, and 14 percent and 18 percent, respectively, at December 31, 2014).

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

(dollars in millions)	Number of Loans	Class Apartments	Offices	Retail	Industrial	Hotel	Others	Total[c]	Percent of Total $
September 30, 2015									
Credit Quality Indicator:									
In good standing	956	$ 3,628	$ 7,375	$ 4,435	$ 1,980	$ 1,972	$ 1,030	$ 20,420	98%
Restructured[a]	9	-	150	25	18	16	6	215	1
90 days or less delinquent	5	-	-	-	6	-	-	6	-
>90 days delinquent or in									

process of foreclosure	**5**	**-**	**177**	**-**	**-**	**-**	**-**	**177**	**1**
Total[(b)]	**975**	**$ 3,628**	**$ 7,702**	**$ 4,460**	**$ 2,004**	**$ 1,988**	**$ 1,036**	**$ 20,818**	**100%**
Allowance for loan losses		**$ 29**	**$ 62**	**$ 35**	**$ 14**	**$ 13**	**$ 9**	**$ 162**	**1%**
December 31, 2014									
Credit Quality Indicator:									
In good standing	1,007	$ 3,384	$ 6,100	$ 3,807	$ 1,689	$ 1,660	$ 1,812	$ 18,452	98%
Restructured[(a)]	7	-	343	7	-	17	-	367	2
90 days or less delinquent	6	-	-	10	-	-	5	15	-
>90 days delinquent or in process of foreclosure	4	-	75	-	-	-	-	75	-
Total[(b)]	1,024	$ 3,384	$ 6,518	$ 3,824	$ 1,689	$ 1,677	$ 1,817	$ 18,909	100%
Allowance for loan losses		$ 3	$ 86	$ 28	$ 22	$ 6	$ 14	$ 159	1%

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

(b) Does not reflect Allowance for loan losses.

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

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Allowance for Loan Losses

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

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

	2015			2014		
Nine Months Ended September 30, *(in millions)*	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 159**	**$ 112**	**$ 271**	$ 201	$ 111	$ 312
Loans charged off	**(23)**	**(6)**	**(29)**	(10)	(13)	(23)
Recoveries of loans previously charged off	**4**	**1**	**5**	-	16	16
Net charge-offs	**(19)**	**(5)**	**(24)**	(10)	3	(7)
Provision for loan losses	**22**	**(66)**	**(44)**	(16)	(6)	(22)
Other	**-**	**3**	**3**	-	1	1
Allowance, end of period	**$ 162 ***	**$ 44**	**$ 206**	$ 175 *	$ 109	$ 284

* Of the total allowance, $24 million and $86 million relate to individually assessed credit losses on $512 million and $246 million of commercial mortgage loans at September 30, 2015 and 2014, respectively.

During the nine-month periods ended September 30, 2015 and 2014, loans with a carrying value of $42 million and $83 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.

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

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

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Item 1 / NOTE 7. VARIABLE INTEREST ENTITIES

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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
September 30, 2015							
Assets:							
Bonds available for sale	**$**	**-$**	**10,915$**	**-$**	**-$**	**24$**	**10,939**
Other bond securities		**-**	**6,310**	**451**	**-**	**37**	**6,798**
Mortgage and other loans receivable		**1**	**2,104**	**-**	**-**	**139**	**2,244**
Other invested assets		**546**	**583**	**-**	**2,644**	**23**	**3,796**
Other [a]		**54**	**814**	**73**	**247**	**91**	**1,279**
Total assets[b][e]	**$**	**601$**	**20,726$**	**524$**	**2,891$**	**314$**	**25,056**
Liabilities:							
Long-term debt	**$**	**23$**	**1,145$**	**54$**	**1,538$**	**6$**	**2,766**
Other [c]		**51**	**249**	**-**	**186**	**71**	**557**
Total liabilities	**$**	**74$**	**1,394$**	**54$**	**1,724$**	**77$**	**3,323**
December 31, 2014							
Assets:							
Bonds available for sale	$	-$	11,459$	-$	-$	35$	11,494
Other bond securities		-	7,251	615	-	40	7,906
Mortgage and other loans receivable		-	2,398	-	-	162	2,560
Other invested assets		577	651	-	1,684	29	2,941
Other [a]		40	1,447	140	49	76	1,752
Total assets[b]	$	617$	23,206$	755$	1,733$	342$	26,653
Liabilities:							
Long-term debt	$	69$	1,370$	52$	199$	7$	1,697
Other[c]		32	276	-	101	37	446
Total liabilities	$	101$	1,646$	52$	300$	44$	2,143

(a) Comprised primarily of Short-term investments, Premiums and other receivables and Other assets at both September 30, 2015 and December 31, 2014.

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

(c) Comprised primarily of Other liabilities and Derivative liabilities, at fair value, at both September 30, 2015 and December 31, 2014.

(d) At September 30, 2015 and December 31, 2014, off-balance sheet exposure, primarily consisting of commitments to real estate and investment entities, was $127.2 million and $56.4 million, respectively.

(e) Includes the effect of consolidating previously unconsolidated partnerships.

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
September 30, 2015					
Real estate and investment entities	**$ 21,844**	**$ 3,179**	**$ 393**	$	**3,572**
Affordable housing partnerships	**5,262**	**1,004**	**-**		**1,004**
Other	**1,110**	**242**	**992**	(b)	**1,234**
Total	**$ 28,216**	**$ 4,425**	**$ 1,385**	$	**5,810**
December 31, 2014					
Real estate and investment entities	$ 19,949	$ 2,785	$ 454	$	3,239
Affordable housing partnerships	7,911	425	-		425
Other[c]	1,959	304	992	(b)	1,296
Total	$ 29,819	$ 3,514	$ 1,446	$	4,960

(a) At September 30, 2015 and December 31, 2014, $4.1 billion and $3.2 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

(b) These amounts 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) The On-Balance and Off-Balance sheet amounts have been revised from $32 million and $0 to $304 million and $992 million, respectively, to correct the Maximum Exposure to Loss as of December 31, 2014, which are not considered material to previously issued financial statements.

See Note 10 to the Consolidated Financial Statements in the 2014 Annual Report for additional information on VIEs.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 11 to the Consolidated Financial Statements in the 2014 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge accounting. Effective July 1, 2015, we reclassified derivatives, with the exception of embedded derivatives, in the Condensed Consolidated Balance Sheets from Derivative assets, at fair value and Derivative liabilities, at fair value to Other assets and Other liabilities, respectively. This change had no effect on the measurement of these derivatives, which continue to be measured at fair value. Embedded derivatives continue to be generally presented with the host contract in the Condensed Consolidated Balance Sheets.

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.

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

	September 30, 2015				December 31, 2014			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivativ Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	F Val
Derivatives designated as hedging instruments:[(a)]								
Interest rate contracts	**$ 915**	**$ 5**	**$ 25**	**$ 2**	$ 155	$ -	$ 25	$

Foreign exchange contracts	**2,380**	**196**	**1,401**	**68**	611	25	1,794	2
Equity contracts	**15**	**2**	**113**	**5**	7	1	104	
Derivatives not designated as hedging instruments:[a]								
Interest rate contracts	**60,521**	**4,078**	**51,865**	**2,893**	65,070	3,743	45,251	3,1
Foreign exchange contracts	**11,904**	**640**	**9,111**	**1,147**	13,667	815	8,516	1,2
Equity contracts[b]	**6,598**	**173**	**48,033**	**2,341**	7,565	206	42,387	1,6
Commodity contracts	**-**	**-**	**-**	**-**	15	-	11	
Credit contracts[c]	**4**	**3**	**1,323**	**531**	5	4	5,288	9
Other contracts[d]	**35,974**	**27**	**250**	**79**	36,155	31	538	
Total derivatives, gross	**$ 118,311**	**$ 5,124**	**$ 112,121**	**$ 7,066**	$ 123,250	$ 4,825	$ 103,914	$ 7,3
Counterparty netting[e]		**(1,691)**		**(1,691)**		(2,102)		(2,10
Cash collateral[f]		**(2,129)**		**(910)**		(1,119)		(1,42
Total derivatives, net		**1,304**		**4,465**		1,604		3,8
Less: Bifurcated embedded derivatives		**-**		**2,300**		-		1,5
Total derivatives on condensed consolidated balance sheets[g]		**$ 1,304**		**$ 2,165**		$ 1,604		$ 2,2

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

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(b) Notional amount of derivative assets and fair value of derivative assets, related to bifurcated embedded derivatives, were zero at both September 30, 2015 and December 31, 2014. Notional amount of derivative liabilities and fair value of derivative liabilities, related to bifurcated embedded derivatives, was $42.7 billion and $2.3 billion, respectively, at September 30, 2015, and $39.3 billion and $1.5 billion, respectively, at December 31, 2014. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets.

(c) As of September 30, 2015 and December 31, 2014, includes super senior multi-sector CDOs with a net notional amount of $1.1 billion and $2.6 billion (fair value liability of $504 million and $947 million), respectively. The expected weighted average maturity as of September 30, 2015 is six years. Because of long-term maturities of the credit default swaps (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 September 30, 2015, there were no super senior corporate debt/CLOs remaining. As of December 31, 2014, includes super senior corporate debt/CLOs with a net notional amount of $2.5 billion (fair value liability of $7 million).

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

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

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

(g) Derivative assets and liabilities are recorded in Other Assets and Liabilities, respectively.

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 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 $3.3 billion at September 30, 2015 and December 31, 2014, 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 $2.2 billion and $1.3 billion at September 30, 2015 and December 31, 2014, respectively. We generally can repledge or resell this 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 the 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.

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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 nine-month periods ended September 30, 2015, we recognized gains of $14 million and $87 million, respectively, and for the three- and nine-month periods ended September 30, 2014, we recognized gains of $104 and $107 million, respectively, included in Change in foreign currency translation adjustment in Other comprehensive income related to the net investment hedge relationships.

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

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

	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 September 30, 2015					
Interest rate contracts:					
Realized capital gains/(losses)	$ 1	$ (1)	$ -	$ -	$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	2	-	-	2

Gain/(Loss) on extinguishment of debt	-	1	-	-	1
Foreign exchange contracts:					
Realized capital gains/(losses)	81	(67)	-	14	-
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	4	-	-	4
Gain/(Loss) on extinguishment of debt	-	-	-	-	-
Equity contracts:					
Realized capital gains/(losses)	(4)	3	-	(1)	-
Three Months Ended September 30, 2014					
Interest rate contracts:					
Realized capital gains/(losses)	$ -	$ -	$ -	$ -	$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	10	-	-	10
Gain/(Loss) on extinguishment of debt	-	-	-	-	-

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Foreign exchange contracts:					
Realized capital gains/(losses)	(76)	91	-	9	6
Interest credited to policyholder account balances	-	(1)	-	-	(1)
Other income	-	7	-	-	7
Gain/(Loss) on extinguishment of debt	-	-	-	-	-
Equity contracts					
Realized capital gains/(losses)	4	(6)	-	(2)	-
Nine Months Ended September 30, 2015					
Interest rate contracts:					
Realized capital gains/(losses)	$ 1	$ (1)	$ -	$ -	$ -
Interest credited to policyholder account balances	-	-	-	-	-
Other income	-	7	-	-	7
Gain/(Loss) on extinguishment of debt	-	14	-	-	14
Foreign exchange contracts:					
Realized capital gains/(losses)	152	(123)	-	27	2
Interest credited to policyholder account balances	-	(1)	-	-	(1)
Other income	-	14	-	-	14
Gain/(Loss) on extinguishment of debt	-	17	-	-	17
Equity contracts:					
Realized capital gains/(losses)	(23)	21	-	(2)	-
Nine Months Ended September 30, 2014					
Interest rate contracts:					
Realized capital gains/(losses)	$ 1	$ (2)	$ -	$ -	$ (1)
Interest credited to policyholder account balances	1	(1)	-	-	-
Other income	-	38	-	-	38
Gain/(Loss) on extinguishment of debt	-	50	-	-	50
Foreign exchange contracts:					
Realized capital gains/(losses)	(20)	32	-	(3)	15
Interest credited to policyholder account balances	-	(2)	-	-	(2)
Other income	-	7	-	-	7
Gain/(Loss) on extinguishment of debt	-	-	-	-	-
Equity contracts					

Realized capital gains/(losses)	(10)	8	-	(2)	-

(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 (Loss):

	Gains (Losses) Recognized in Earnings			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
By Derivative Type:				
Interest rate contracts	**$ 469**	$ 222	**$ 402**	$ 409
Foreign exchange contracts	**51**	253	**321**	276
Equity contracts*	**(586)**	(159)	**(39)**	(584)
Commodity contracts	**-**	(2)	**(1)**	(1)
Credit contracts	**11**	75	**171**	229
Other contracts	**71**	44	**60**	83
Total	**$ 16**	$ 433	**$ 914**	$ 412
By Classification:				
Policy fees	**$ 20**	$ 19	**$ 59**	$ 49
Net investment income	**6**	24	**20**	20
Net realized capital gains (losses)	**20**	79	**496**	(114)
Other income (losses)	**(36)**	309	**334**	447
Policyholder benefits and claims incurred	**6**	2	**5**	10
Total	**$ 16**	$ 433	**$ 914**	$ 412

* Includes embedded derivative losses of $(816) million and $(147) million for the three- and nine-month periods ended September 30, 2015, respectively, and embedded derivative losses of $(86) million and $(428) million for the three- and nine-month periods ended September 30, 2014, respectively.

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 September 30, 2015 and December 31, 2014, was approximately $2.2 billion and $2.5 billion, respectively. The aggregate fair value of assets posted as collateral under these contracts at September 30, 2015 and December 31, 2014, was $2.3 billion and $2.7 billion, respectively.

We estimate that at September 30, 2015, based on our outstanding financial derivative transactions, a one notch downgrade of our long term senior debt ratings to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in approximately $12 million in additional collateral postings and termination payments; a one notch downgrade to Baa2 by Moody's Investors' Service, Inc. (Moody's) and an additional one notch downgrade to BBB by S&P would result in approximately $46 million in additional collateral postings and termination payments; and a further one notch downgrade to Baa3 by Moody's and BBB by S&P would result in approximately $118 million in additional collateral postings and termination payments.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of September 30, 2015. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could significantly differ from our estimates given market conditions at the

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time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

Hybrid Securities with Embedded Credit Derivatives

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

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Other bond securities in the Condensed Consolidated Balance Sheets. The fair values of these hybrid securities were $5.7 billion and $6.1 billion at September 30, 2015 and December 31, 2014, respectively. These securities have par amounts of $11.5 billion and $12.3 billion at September 30, 2015 and December 31, 2014, respectively, and have remaining stated maturity dates that extend to 2055.

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.

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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 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 (one such action also names as a defendant AIG's outside auditor and two such actions also name as defendants the underwriters of various securities offerings). 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 seven 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 two remaining Individual Securities Litigations 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 September 23, 2015, AIG filed an appeal of the court's denial.

On April 29, 2015, AIG filed a complaint for declaratory relief in the Southern District of New York seeking a declaration that the Section 11 claims filed in the California Action are time-barred (the SDNY Action). On July 10, 2015, AIG filed a motion for summary judgment and the plaintiff in the California Action cross moved to dismiss the SDNY Action.

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

ERISA Actions – Southern District of New York On December 19, 2014, a third consolidated amended complaint, resulting from the consolidation of purported class actions filed between June 25, 2008 and November 25, 2008, was filed against AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee in In re American International Group, Inc. ERISA Litigation II (the Consolidated 2008 ERISA Litigation), asserting claims under the Employee Retirement Income Security Act of 1974, as amended (ERISA), purportedly on behalf of a class of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG Common Stock. The complaint alleged, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly

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became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues.

On January 6, 2015, the parties informed the Court that they had accepted a mediator's proposal to settle the action for $40 million. On September 18, 2015, the Court issued an Order and Final Judgment approving the class settlement and dismissed the action with prejudice. The entirety of the $40 million settlement will be paid by AIG's fiduciary liability insurance carriers.

Canadian Securities Class Action – Ontario Superior Court of Justice On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. The proposed statement of claim would assert a class period of March 16, 2006 through September 16, 2008 and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act. The proposed statement of claim further alleges general and special damages of $500 million and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate.

On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. Thereafter, the Court stayed the action pending further developments in the Consolidated 2008 Securities Litigation. On June 29, 2015, counsel for AIG and AIGFP provided notice to counsel for plaintiff in the action that a final order approving the settlement in the Consolidated 2008 Securities Litigation was entered and can no longer be appealed. Plaintiff did not move to lift the stay in the time allotted by the Ontario Superior Court's stay order and, as a result, the action is now permanently stayed.

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 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

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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.

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

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motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempted to plead the same claims as the prior complaints and did not specify an amount of alleged damages. AIG and its co-defendants filed motions to dismiss the second amended complaint on August 9, 2013. On March 29, 2014, the Court dismissed the second amended complaint with prejudice. On April 30, 2014, the Relators filed a Notice of Appeal to the Ninth Circuit. We are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Litigation Matters Relating to AIG's Insurance Operations

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

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

On August 15, 2012, the trial court entered an order granting plaintiffs' motion for class certification, 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 has been remanded to the trial court for general discovery and adjudication of the merits. Trial is expected to commence on February 22, 2016. 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)

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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. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on our ongoing operations of the business subject to the agreement, or on similar business written by other AIG carriers.

Other Commitments

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $2.6 billion at September 30, 2015.

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 September 30, 2015 was $214 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.

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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 on 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.

10. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Common Stock Outstanding
Nine Months Ended September 30, 2015			
Shares, beginning of year	1,906,671,492	(530,744,521)	1,375,926,971
Shares issued	-	355,767	355,767
Shares repurchased	-	(129,488,123)	(129,488,123)
Shares, end of period	1,906,671,492	(659,876,877)	1,246,794,615

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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 26, 2015, AIG paid a dividend of $0.125 per share on AIG Common Stock to shareholders of record on March 12, 2015. On June 25, 2015, AIG paid a dividend of $0.125 per share on AIG Common Stock to shareholders of record on June 11, 2015. On September 28, 2015, AIG paid a dividend of $0.28 per share on AIG Common Stock to shareholders of record on September 14, 2015.

See Note 20 to the Consolidated Financial Statements in the 2014 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 August 3, 2015, our Board of Directors authorized an additional increase of $5.0 billion to its previous share repurchase authorization. As of September 30, 2015, approximately $3.5 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. 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 129 million shares of AIG Common Stock during the nine-month period ended September 30, 2015, for an aggregate purchase price of approximately $7.5 billion.

The total number of shares of AIG Common Stock repurchased in the nine-month period ended September 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 accelerated share repurchase agreement executed in the fourth quarter of 2014.

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

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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	Reti Lia Adju
Balance, December 31, 2014, net of tax	**$ 1,043**	**$ 12,327**	**$ (1,784)**	**$**
Change in unrealized depreciation of investments	**(315)**	**(6,372)**	**-**	
Change in deferred acquisition costs adjustment and other	**-**	**763**	**-**	
Change in future policy benefits	**92**	**807**	**-**	
Change in foreign currency translation adjustments	**-**	**-**	**(901)**	
Net actuarial gain	**-**	**-**	**-**	
Prior service cost	**-**	**-**	**-**	
Change in deferred tax asset (liability)	**54**	**1,493**	**167**	
Total other comprehensive income (loss)	**(169)**	**(3,309)**	**(734)**	
Noncontrolling interests	**-**	**-**	**(4)**	
Balance, September 30, 2015, net of tax	**$ 874**	**$ 9,018**	**$ (2,514)**	**$**
Balance, December 31, 2013, net of tax	$ 936	$ 6,789	$ (952)	$
Change in unrealized appreciation of investments	268	6,330	-	
Change in deferred acquisition costs adjustment and other	61	(433)	-	
Change in future policy benefits	(114)	(781)	-	
Change in foreign currency translation adjustments	-	-	(149)	
Net actuarial gain	-	-	-	
Prior service cost	-	-	-	
Change in deferred tax asset (liability)	(41)	(144)	(40)	

Total other comprehensive income (loss)		174	4,972	(189)
Noncontrolling interests		-	(1)	-
Balance, September 30, 2014, net of tax	$	1,110 $	11,762 $	(1,141) $

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the other comprehensive income reclassification adjustments for the three- and nine-month periods ended September 30, 2015 and 2014, 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	Tota
Three Months Ended September 30, 2015					
Unrealized change arising during period	**$ (98)**	**$ (1,275)**	**$ (217)**	**$ 303**	**$(1,287**
Less: Reclassification adjustments included in net income	**13**	**(17)**	**-**	**164**	**160**
Total other comprehensive income (loss), before income tax expense (benefit)	**(111)**	**(1,258)**	**(217)**	**139**	**(1,447**
Less: Income tax expense (benefit)	**(50)**	**(401)**	**21**	**47**	**(383**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ (61)**	**$ (857)**	**$ (238)**	**$ 92**	**$(1,064**
Three Months Ended September 30, 2014					
Unrealized change arising during period	$ 132	$ (575)	$ (120)	$ (8)	$ (571
Less: Reclassification adjustments included in net income	9	12	-	1	22
Total other comprehensive income (loss), before income tax expense (benefit)	123	(587)	(120)	(9)	(593
Less: Income tax expense (benefit)	64	(419)	(42)	(15)	(412
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 59	$ (168)	$ (78)	$ 6	$ (181
Nine Months Ended September 30, 2015					
Unrealized change arising during period	**$ (155)**	**$ (4,243)**	**$ (901)**	**$ 324**	**$(4,975**
Less: Reclassification adjustments included in net income	**68**	**559**	**-**	**117**	**744**

Total other comprehensive income (loss), before income tax expense (benefit)	**(223)**	**(4,802)**	**(901)**	**207**	**(5,719)**
Less: Income tax expense (benefit)	**(54)**	**(1,493)**	**(167)**	**59**	**(1,655)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ (169)**	**$ (3,309)**	**$ (734)**	**$ 148**	**$ (4,064)**
Nine Months Ended September 30, 2014					
Unrealized change arising during period	$ 242	$ 5,522	$ (149)	$ 3	$ 5,618
Less: Reclassification adjustments included in net income	27	406	-	(1)	432
Total other comprehensive income (loss), before income tax expense (benefit)	215	5,116	(149)	4	5,186
Less: Income tax expense (benefit)	41	144	40	(9)	216
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 174	$ 4,972	$ (189)	$ 13	$ 4,970

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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 (Loss):

	Amount Reclassified from Accumulated Other Comprehensive Income Three Months Ended September 30,		
(in millions)	**2015**	2014	Affected Line Item in the Condensed Consolidated Statements of Income (Loss)
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken			
Investments	**$ 13**	$ 9	Other realized capital gains
Total	**13**	9	
Unrealized appreciation (depreciation) of all other investments			
Investments	**(15)**	117	Other realized capital gains
Deferred acquisition costs adjustment	**(2)**	(40)	Amortization of deferred policy acquisition costs
Future policy benefits	**-**	(65)	Policyholder benefits and losses incurred
Total	**(17)**	12	
Change in retirement plan liabilities adjustment			
Prior - service cost	**187**	11	*
Actuarial losses	**(23)**	(10)	*
Total	**164**	1	
Total reclassifications for the period	**$ 160**	$ 22	

Amount Reclassified from

Affected Line Item in the Condensed Consolidated Statements of Income (Loss)

(in millions)	Accumulated Other Comprehensive Income Nine Months Ended September 30, **2015**	2014	
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken			
Investments	**$ 68**	$ 27	Other realized capital gains
Total	**68**	27	
Unrealized appreciation (depreciation) of all other investments			
Investments	**609**	528	Other realized capital gains
Deferred acquisition costs adjustment	**(67)**	(35)	Amortization of deferred policy acquisition costs
Future policy benefits	**17**	(87)	Policyholder benefits and losses incurred
Total	**559**	406	
Change in retirement plan liabilities adjustment			
Prior - service cost	**210**	35	*
Actuarial losses	**(93)**	(36)	*
Total	**117**	(1)	-
Total reclassifications for the period	**$ 744**	$ 432	-

* 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 September 30,		
(dollars in millions, except per share data)		**2015**		20
Numerator for EPS:				
Income (loss) from continuing operations	**$**	**(180)**	$	2,1
Less: Net income (loss) from continuing operations attributable to noncontrolling interests		**34**		
Income (loss) attributable to AIG common shareholders from continuing operations		**(214)**		2,1
Income (loss) from discontinued operations, net of income tax expense		**(17)**		
Net income (loss) attributable to AIG common shareholders		**(231)**		2,1
Denominator for EPS:				
Weighted average shares outstanding - basic		**1,279,072,748**		1,419,239,7
Dilutive shares[(a)]		**-**		22,828,0
Weighted average shares outstanding - diluted[(b)]		**1,279,072,748**		1,442,067,8
Income per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.
Income (loss) from discontinued operations	**$**	**(0.01)**	$	
Income (loss) attributable to AIG	**$**	**(0.18)**	$	1.
Diluted:				
Income (loss) from continuing operations	**$**	**(0.17)**	$	1.
Income (loss) from discontinued operations	**$**	**(0.01)**	$	
Income (loss) attributable to AIG	**$**	**(0.18)**	$	1.

(a) Shares in the diluted EPS calculation represent basic shares for the three-month period ended September 30, 2015 due to the net loss in that period.

(b) 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 0.2 million for the three- and nine-month periods ended September 30, 2015, respectively, and 0.3 million for both the three- and nine-month periods ended September 30, 2014, 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 US and certain non-US countries. For the nine-month period ended September 30, 2015, we contributed $600 million to our U.S. and non-U.S. pension plans ($541 million was contributed to the U.S. AIG Retirement Plan), and we estimate that we will contribute an additional $14 million for the remainder of 2015. These estimates are subject to change because contribution decisions are affected by various factors including our liquidity, market performance and management discretion.

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Item 1 / NOTE 12. EMPLOYEE BENEFITS

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On August 27, 2015, we amended the AIG Retirement Plan, the Non-Qualified Retirement Income Plan and the Supplemental Executive Retirement Plan (the Plans), to freeze benefit accruals effective January 1, 2016. Consequently, the Plans will be closed to new participants and current participants will no longer earn additional benefits after December 31, 2015. However, interest credits will continue to accrue on the existing cash balance accounts and participants will also continue to earn service credits for purposes of vesting and early retirement eligibility and subsidies as they continue to work for AIG.

As a result of this decision to freeze the Plans, AIG re-measured the plan assets and obligations as of September 1, 2015 and recognized a pre-tax curtailment gain of $179 million and a net increase of $324 million in accumulated other comprehensive income in the third quarter of 2015.

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

	Pension			Postretirement		
	U.S.	Non-U.S.		U.S.	Non-U.S.	
(in millions)	Plans	Plans	Total	Plans	Plans	Total
Three Months Ended September 30, 2015						
Components of net periodic benefit cost:						
Service cost	**$ 41**	**$ 10**	**$ 51**	**$ 1**	**$ -**	**$ 1**
Interest cost	**54**	**6**	**60**	**2**	**1**	**3**
Expected return on assets	**(74)**	**(5)**	**(79)**	**-**	**-**	**-**
Amortization of prior service credit	**(6)**	**(1)**	**(7)**	**(3)**	**-**	**(3)**
Amortization of net loss	**21**	**2**	**23**	**-**	**-**	**-**
Curtailment gain	**(179)**	**-**	**(179)**	**-**	**-**	**-**
Net periodic benefit (income) cost	**$ (143)**	**$ 12**	**$ (131)**	**$ -**	**$ 1**	**$ 1**
Three Months Ended September 30, 2014						
Components of net periodic benefit cost:						
Service cost	$ 42	$ 11	$ 53	$ 1	$ -	$ 1
Interest cost	57	7	64	2	1	3
Expected return on assets	(73)	(6)	(79)	-	-	-
Amortization of prior service credit	(8)	(1)	(9)	(3)	-	(3)
Amortization of net loss	9	2	11	-	-	-
Net periodic benefit cost	$ 27	$ 13	$ 40	$ -	$ 1	$ 1
Nine Months Ended September 30, 2015						
Components of net periodic benefit cost:						
Service cost	**$ 144**	**$ 31**	**$ 175**	**$ 4**	**$ 2**	**$ 6**

Interest cost		**164**		**18**		**182**		**6**		**2**	**8**
Expected return on assets		**(218)**		**(17)**		**(235)**		**-**		**-**	**-**
Amortization of prior service credit		**(22)**		**(2)**		**(24)**		**(8)**		**-**	**(8)**
Amortization of net loss		**86**		**7**		**93**		**-**		**-**	**-**
Curtailment gain		**(179)**		**(1)**		**(180)**		**-**		**-**	**-**
Net periodic benefit (income) cost	**$**	**(25)**	**$**	**36**	**$**	**11**	**$**	**2**	**$**	**4**	**$ 6**
Nine Months Ended September 30, 2014											
Components of net periodic benefit cost:											
Service cost	$	130	$	32	$	162	$	3	$	1	$ 4
Interest cost		171		22		193		7		2	9
Expected return on assets		(215)		(17)		(232)		-		-	-
Amortization of prior service credit		(25)		(2)		(27)		(8)		-	(8)
Amortization of net loss		31		6		37		-		-	-
Net periodic benefit cost	$	92	$	41	$	133	$	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 September 30, 2015, the effective tax rate on loss from continuing operations was not meaningful, due to a tax charge on a pre-tax loss. The tax charge was primarily due to increases in uncertain tax positions related to cross-border financing transactions, partially offset by tax benefits associated with tax-exempt interest income and the partial completion of the Internal Revenue Service examination covering tax year 2006.

For the nine-month period ended September 30, 2015, the effective tax rate on income from continuing operations was 34.5 percent. The effective tax rate on income from continuing operations for the nine-month period ended September 30, 2015 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 the partial completion of the Internal Revenue Service examination covering tax year 2006, partially offset by tax charges associated with increases in uncertain tax positions related to cross-border financing transactions and increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions. The nine-month period ended September 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.

For the three- and nine-month periods ended September 30, 2014, the effective tax rate on income from continuing operations was 27.2 percent and 29.8 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 and a decrease in the U.S. Life Insurance Companies' capital loss carryforward deferred tax asset valuation allowance.

Assessment of Deferred Tax Asset Valuation Allowance

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

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

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;

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- 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 September 30, 2015, 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.

Changes in market conditions, including rising interest rates, may impact unrealized tax losses in the U.S. Life Insurance Companies' available for sale portfolio and could affect our assessment of the recoverability of the related deferred tax assets. The deferred tax asset relates to the unrealized losses for which the carryforward period has not yet begun, as such when assessing its recoverability we consider our ability and intent to hold the underlying securities to recovery.

During the three-month period ended September 30, 2015, we recognized an increase of $8 million in our deferred tax asset valuation allowance associated with certain foreign jurisdictions.

During the nine-month period ended September 30, 2015, we recognized an increase of $61 million in our deferred tax asset valuation allowance associated with certain foreign jurisdictions, primarily attributable to changes in the Japanese tax law enacted on March 31, 2015 partially offset by changes in projections of future taxable income.

Tax Examinations and Litigation

On March 29, 2013, the U.S District Court for the Southern District of New York denied our motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions. On March 17, 2014, the U.S. Court of Appeals for the Second Circuit (the Second Circuit) granted our petition for an immediate appeal of the partial summary judgment decision. On September 9, 2015, the Second Circuit affirmed the decision of the U.S. District Court for 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.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

We will vigorously defend our position and believe we maintain adequate reserves for liabilities that could result upon the conclusion of the litigation and from Internal Revenue Service actions. We continue to monitor legal and other developments in this area, including recent decisions affecting other taxpayers, and evaluate the effect, if any, on our position.

Accounting for Uncertainty in Income Taxes

At both September 30, 2015 and December 31, 2014, our unrecognized tax benefits, excluding interest and penalties, were $4.4 billion. The nine-month activity includes increases for amounts associated with cross border financing transactions partially offset by certain benefits realized due to the partial completion of the Internal Revenue Service examination covering tax year 2006. At September 30, 2015 and December 31, 2014, 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 $0.2 billion and $0.3 billion, respectively. Accordingly, at September 30, 2015 and December 31, 2014, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.2 billion and $4.1 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At September 30, 2015 and December 31, 2014, we had accrued liabilities of $1.2 billion and $1.1 billion, respectively, for the payment of interest (net of the federal benefit) and penalties. For the nine-month periods ended September 30, 2015 and 2014, we accrued expense (benefit) of $133 million and $(64) million, respectively, for the payment of interest and penalties. The interest increase from December 31, 2014 was primarily due to increases in amounts associated with cross border financing transactions.

We regularly evaluate adjustments proposed by taxing authorities. At September 30, 2015, 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.

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	Consolidated AIG
September 30, 2015					
Assets:					
Short-term investments	$ 5,531	$ -	$ 7,234	$ (357)	$ 12,408
Other investments[a]	9,028	-	324,965	-	333,993
Total investments	14,559	-	332,199	(357)	346,401
Cash	20	3	1,546	-	1,569
Loans to subsidiaries[b]	31,354	-	543	(31,897)	-
Investment in consolidated subsidiaries[b]	59,411	32,486	-	(91,897)	-
Other assets, including deferred income taxes	25,428	260	130,952	(2,625)	154,015
Total assets	$ 130,772	$ 32,749	$ 465,240	$ (126,776)	$ 501,985

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Liabilities:					
Insurance liabilities	$ -	$ -	$ 267,946	$ -	$ 267,946
Long-term debt	20,794	707	9,218	-	30,719
Other liabilities, including intercompany balances[a]	10,439	185	96,104	(3,027)	103,701
Loans from subsidiaries[b]	540	-	31,357	(31,897)	-
Total liabilities	31,773	892	404,625	(34,924)	402,366
Total AIG shareholders' equity	98,999	31,857	59,995	(91,852)	98,999
Non-redeemable noncontrolling interests	-	-	620	-	620
Total equity	98,999	31,857	60,615	(91,852)	99,619
Total liabilities and equity	$ 130,772	$ 32,749	$ 465,240	$ (126,776)	$ 501,985
December 31, 2014					
Assets:					
Short-term investments	$ 6,078	$ -	$ 6,231	$ (1,066)	$ 11,243
Other investments[a]	11,415	-	333,108	-	344,523
Total investments	17,493	-	339,339	(1,066)	355,766
Cash	26	91	1,641	-	1,758
Loans to subsidiaries[b]	31,070	-	779	(31,849)	-
Investment in consolidated subsidiaries[b]	62,811	35,850	-	(98,661)	-
Other assets, including deferred income taxes	23,835	2,305	141,826	(9,909)	158,057
Total assets	$ 135,235	$ 38,246	$ 483,585	$ (141,485)	$ 515,581
Liabilities:					
Insurance liabilities	$ -	$ -	$ 270,615	$ -	$ 270,615
Long-term debt	21,190	820	9,207	-	31,217
Other liabilities, including intercompany balances[a]	6,196	2,314	108,189	(10,222)	106,477
Loans from subsidiaries[b]	951	-	30,898	(31,849)	-
Total liabilities	28,337	3,134	418,909	(42,071)	408,309
Total AIG shareholders' equity	106,898	35,112	64,302	(99,414)	106,898
Non-redeemable noncontrolling interests	-	-	374	-	374
Total equity	106,898	35,112	64,676	(99,414)	107,272
Total liabilities and equity	$ 135,235	$ 38,246	$ 483,585	$ (141,485)	$ 515,581

(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 September 30, 2015				
Revenues:				
Equity in earnings of consolidated subsidiaries*	**$ 717**	**$ 222**	**$ -**	**$**
Other income	**(221)**	**-**	**13,220**	
Total revenues	**496**	**222**	**13,220**	
Expenses:				
Interest expense	**254**	**14**	**83**	
Loss on extinguishment of debt	**345**	**-**	**1**	
Other expenses	**352**	**-**	**12,064**	
Total expenses	**951**	**14**	**12,148**	
Income (loss) from continuing operations before income tax expense (benefit)	**(455)**	**208**	**1,072**	
Income tax expense (benefit)	**(224)**	**(6)**	**295**	
Income (loss) from continuing operations	**(231)**	**214**	**777**	
Loss from discontinued operations, net of income taxes	**-**	**-**	**(17)**	
Net income (loss)	**(231)**	**214**	**760**	
Less:				
Net income from continuing operations attributable to noncontrolling interests	**-**	**-**	**34**	
Net income (loss) attributable to AIG	**$ (231)**	**$ 214**	**$ 726**	**$**
Three Months Ended September 30, 2014				
Revenues:				
Equity in earnings of consolidated subsidiaries*	$ 2,661	$ 1,315	$ -	$
Other income	615	-	16,161	
Total revenues	3,276	1,315	16,161	
Expenses:				
Interest expense	378	22	62	

Loss on extinguishment of debt		682	-	60
Other expenses		284	61	12,196
Total expenses		1,344	83	12,318
Income (loss) from continuing operations before income tax expense (benefit)		1,932	1,232	3,843
Income tax expense (benefit)		(261)	(33)	1,117
Income (loss) from continuing operations		2,193	1,265	2,726
Income (loss) from discontinued operations, net of income taxes		(1)	-	3
Net income (loss)		2,192	1,265	2,729
Less:				
Net income from continuing operations attributable to noncontrolling interests		-	-	9
Net income (loss) attributable to AIG	$	2,192$	1,265$	2,720$

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Re
Nine Months Ended September 30, 2015				
Revenues:				
Equity in earnings of consolidated subsidiaries[*]	$ **5,793**	$ **1,744**	$ **-**	$
Other income	**(57)**	**-**	**45,050**	
Total revenues	**5,736**	**1,744**	**45,050**	
Expenses:				
Interest expense	**810**	**44**	**213**	
Loss on extinguishment of debt	**703**	**-**	**46**	
Other expenses	**899**	**42**	**36,016**	
Total expenses	**2,412**	**86**	**36,275**	
Income (loss) from continuing operations before income tax expense (benefit)	**3,324**	**1,658**	**8,775**	
Income tax expense (benefit)	**(714)**	**(69)**	**2,925**	
Income (loss) from continuing operations	**4,038**	**1,727**	**5,850**	
Income (loss) from discontinued operations, net of income taxes	**(1)**	**-**	**1**	
Net income (loss)	**4,037**	**1,727**	**5,851**	
Less:				
Net income from continuing operations attributable to noncontrolling interests	**-**	**-**	**34**	
Net income (loss) attributable to AIG	$ **4,037**	$ **1,727**	$ **5,817**	$
Nine Months Ended September 30, 2014				
Revenues:				
Equity in earnings of consolidated subsidiaries[*]	$ 8,149	$ 2,789	$ -	$
Other income	1,094	-	48,165	
Total revenues	9,243	2,789	48,165	
Expenses:				
Interest expense	1,210	80	180	
Loss on extinguishment of debt	987	-	77	
Other expenses	1,310	79	35,564	
Total expenses	3,507	159	35,821	
Income (loss) from continuing operations before income tax expense (benefit)	5,736	2,630	12,344	

Income tax expense (benefit)		(1,137)	(54)	4,121	
Income (loss) from continuing operations		6,873	2,684	8,223	
Income (loss) from discontinued operations, net of income taxes		1	-	(16)	
Net income (loss)		6,874	2,684	8,207	
Less:					
Net loss from continuing operations attributable to noncontrolling interests		-	-	(25)	
Net income (loss) attributable to AIG	$	6,874 $	2,684 $	8,232	$

* Eliminated in consolidation.

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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 September 30, 2015				
Net income (loss)	**$ (231)**	**$ 214**	**$ 760**	**$**
Other comprehensive income (loss)	**(1,063)**	**(548)**	**187**	
Comprehensive income (loss)	**(1,294)**	**(334)**	**947**	
Total comprehensive income attributable to noncontrolling interests	**-**	**-**	**33**	
Comprehensive income (loss) attributable to AIG	**$ (1,294)**	**$ (334)**	**$ 914**	**$**
Three Months Ended September 30, 2014				
Net income (loss)	$ 2,192	$ 1,265	$ 2,729	$
Other comprehensive income (loss)	(180)	(259)	(1,885)	
Comprehensive income (loss)	2,012	1,006	844	
Total comprehensive income attributable to noncontrolling interests	-	-	8	
Comprehensive income (loss) attributable to AIG	$ 2,012	$ 1,006	$ 836	$
Nine Months Ended September 30, 2015				
Net income (loss)	**$ 4,037**	**$ 1,727**	**$ 5,851**	**$**
Other comprehensive income (loss)	**(4,060)**	**3,942**	**52,820**	
Comprehensive income (loss)	**(23)**	**5,669**	**58,671**	
Total comprehensive income attributable to noncontrolling interests	**-**	**-**	**30**	
Comprehensive income (loss) attributable to AIG	**$ (23)**	**$ 5,669**	**$ 58,641**	**$**
Nine Months Ended September 30, 2014				
Net income (loss)	$ 6,874	$ 2,684	$ 8,207	$
Other comprehensive income (loss)	4,971	2,522	1,848	
Comprehensive income (loss)	11,845	5,206	10,055	
Total comprehensive loss attributable to noncontrolling interests	-	-	(26)	
Comprehensive income (loss) attributable to AIG	$ 11,845	$ 5,206	$ 10,081	$

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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*	Consolid
Nine Months Ended September 30, 2015					
Net cash provided by operating activities	**3,675**	**1,386**	**508**	**(3,335)**	**2**
Cash flows from investing activities:					
Sales of investments	**5,610**	**-**	**52,234**	**(3,363)**	**54**
Purchase of investments	**(1,373)**	**-**	**(49,465)**	**3,363**	**(47,**
Loans to subsidiaries - net	**(1,227)**	**-**	**2,690**	**(1,463)**	
Contributions to subsidiaries - net	**-**	**-**	**-**	**-**	
Net change in restricted cash	**-**	**-**	**1,476**	**-**	**1**
Net change in short-term investments	**1,940**	**-**	**(2,968)**	**-**	**(1,**
Other, net	**(4)**	**-**	**(770)**	**-**	**(**
Net cash provided by investing activities	**4,946**	**-**	**3,197**	**(1,463)**	**6**
Cash flows from financing activities:					
Issuance of long-term debt	**5,540**	**-**	**909**	**-**	**6**
Repayments of long-term debt	**(5,728)**	**(115)**	**(2,500)**	**-**	**(8,**
Purchase of Common Stock	**(7,473)**	**-**	**-**	**-**	**(7,**
Intercompany loans - net	**(236)**	**-**	**(1,227)**	**1,463**	
Cash dividends paid	**(687)**	**(1,359)**	**(1,976)**	**3,335**	**(**
Other, net	**(43)**	**-**	**1,033**	**-**	
Net cash (used in) financing activities	**(8,627)**	**(1,474)**	**(3,761)**	**4,798**	**(9,**
Effect of exchange rate changes on cash	**-**	**-**	**(39)**	**-**	
Change in cash	**(6)**	**(88)**	**(95)**	**-**	**(**
Cash at beginning of year	**26**	**91**	**1,641**	**-**	**1**
Reclassification to assets held for sale	**-**	**-**	**-**	**-**	
Cash at end of period	**$ 20**	**$ 3**	**$ 1,546**	**$ -**	**$ 1**
Nine Months Ended September 30, 2014					
Net cash provided by operating activities	7,228	4,333	3,979	(11,183)	4
Cash flows from investing activities:					

Sales of investments	2,032	-	45,254	(725)	46
Purchase of investments	(1,257)	-	(42,549)	725	(43,
Loans to subsidiaries - net	(1,687)	-	327	1,360	
Contributions from (to) subsidiaries - net	77	-	-	(77)	
Net change in restricted cash	(5)	-	(655)	-	(
Net change in short-term investments	2,947	-	(605)	-	2
Other, net	(61)	-	(234)	-	(
Net cash provided by investing activities	2,046	-	1,538	1,283	4

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Cash flows from financing activities:					
Issuance of long-term debt	2,489	-	3,338	-	5,827
Repayments of long-term debt	(7,368)	(165)	(4,028)	-	(11,561)
Intercompany loans - net	(47)	(279)	1,686	(1,360)	-
Purchase of common stock	(3,403)	-	-	-	(3,403)
Cash dividends paid to shareholders	(539)	(3,931)	(7,252)	11,183	(539)
Other, net	(324)	-	322	77	75
Net cash (used in) financing activities	(9,192)	(4,375)	(5,934)	9,900	(9,601)
Effect of exchange rate changes on cash	-	-	(19)	-	(19)
Change in cash	82	(42)	(436)	-	(396)
Cash at beginning of year	30	51	2,160	-	2,241
Change in cash of businesses held for sale	-	-	88	-	88
Cash at end of period	$ 112	$ 9	$ 1,812	$ -	$ 1,933

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 2015 period for:					
Interest:					
Third party	**$ (846)**	**$ (57)**	**$ (209)**	**$ -**	**$**
Intercompany	**-**	**-**	**-**	**-**	
Taxes:					
Income tax authorities	**$ (17)**	**$ -**	**$ (389)**	**$ -**	**$**
Intercompany	**1,769**	**-**	**(1,769)**	**-**	
Cash (paid) received during the 2014 period for:					
Interest:					
Third party	$ (1,238)	$ (87)	$ (1,171)	$ -	$
Intercompany	(1)	(7)	8	-	
Taxes:					
Income tax authorities	$ (18)	$ -	$ (596)	$ -	$
Intercompany	1,348	-	(1,348)	-	

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

Transfers of Level 3 Liabilities

Nine Months Ended September 30,		
(in millions)	**2015**	2014
Intercompany non-cash financing and investing activities:		
Capital contributions	**$ 111**	$ 993
Dividends received in the form of securities	**1,997**	1,538
Return of capital*	**-**	4,836
Consideration received from sale of shares of AerCap	**500**	-

* Includes $4.8 billion return of capital from AIG Capital Corporation related to the sale of ILFC.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15. SUBSEQUENT EVENTS

Dividends Declared

On November 2, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.28 per share, payable on December 21, 2015 to shareholders of record on December 7, 2015. This dividend will result in an adjustment to the exercise price of the outstanding warrants (the Warrants) to purchase shares of AIG Common Stock and an adjustment to the number of shares of AIG Common Stock receivable upon Warrant exercise. The exact adjustments, determined by a formula set forth in the Warrant Agreement, will become calculable on December 2, 2015, the day prior to the ex-dividend date. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us.

See Note 10 to the Condensed Consolidated Financial Statements.

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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 and in our Annual Report on Form 10-K for the year ended December 31, 2014 (2014 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 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 “believe,” “anticipate,” “expect,” “intend,” “plan,” “view,” “target” “estimate.” These projections, 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;
- 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 share, and reduce expenses;
- anticipated restructuring charges and annual cost savings;
- 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;
- 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;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning estimated restructuring charges and estimated cost savings;
- 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 of the Quarterly Reports on Form 10 Q for the quarterly periods ended March 31, 2015 and June 30, 2015; and
- Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A of the 2014 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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The MD&A is organized as follows:

INDEX TO ITEM 2

Transfers of Level 3 Liabilities

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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 Share Excluding Accumulated Other Comprehensive Income (AOCI) and Book Value Per 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 the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts are estimates based on projections of full-year attribute utilization. Book Value Per Share Excluding AOCI is derived by dividing Total AIG shareholders’ equity, excluding AOCI, by Total common shares outstanding. Book Value Per 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 the effect of non-cash 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. Deferred tax assets represent U.S. tax attributes related to net operating loss carryforwards and foreign tax credits. Amounts are estimates based on projections of full-year attribute utilization. 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:

• deferred income tax valuation allowance releases and charges; • changes in fair value of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense); • 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.

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. 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. Catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each.

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Item 2 / USE OF NON-GAAP MEASURES

- ***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 values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense);	• 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, including Aircraft Leasing;	• 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 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 2014 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, 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 & health (A&H), 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 that includes broker-dealers, agencies and independent marketing organizations, banks, brokers, partnerships, travel agents, affiliated agents and 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, including excess workers' compensation, asbestos and legacy environmental (1986 and prior), certain environmental liability businesses, certain healthcare coverage, and certain long-duration business, primarily in Japan and the U.S.

As a result of the progress of the wind down and de-risking activities of the Direct Investment book (DIB) and the derivative portfolio of AIG Financial Products Corp. and related subsidiaries (collectively, AIGFP) included within Global Capital Markets (GCM), AIG has discontinued separate reporting of the DIB and GCM. Their results are reported within Income from other assets, net, beginning with the first quarter of 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in the historical format for informational purposes. AIG borrowings supported by assets continue to be managed as such with assets allocated to support the timely repayment of those liabilities. Assets previously held in the DIB and GCM that are otherwise not required to meet the obligations and capital requirements of the DIB and GCM have been made available to AIG Parent.

As part of our broad and on-going efforts to transform AIG for long-term competitiveness, during the quarter we finalized a series of initiatives that will focus on organizational simplification, operational efficiency, and business rationalization which are expected to generate pre-tax annualized savings of approximately $0.4 billion to $0.5 billion when fully implemented. These initiatives are expected to result in pre-tax restructuring and other costs of approximately $0.5 billion including approximately $0.3 billion of employee severance and one-time termination benefits, concentrated initially among management's senior levels. Further staff reductions are anticipated in 2016. Approximately half of the remaining $0.2 billion relates to costs associated with modernization of information technology platforms, with the balance relating to costs associated with consolidation of legal entities and exiting lower return lines of business. Results for the third quarter of 2015 include approximately $274 million of pre-tax restructuring and other costs, with the remainder expected to be recognized through 2017. We expect approximately $0.3 billion of the aggregate pre-tax costs to result in cash expenditures.

We will continue to evaluate lines of business, market segments and geographies within our Commercial and Consumer Insurance businesses. As decisions are made to exit lines of business, we expect to report their operating results within "Run-

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off insurance lines" as a component of Corporate and Other, and prior periods' presentation may be revised to conform to the new structure.

Financial Performance

Commercial Insurance pre tax operating income decreased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year primarily due to lower net investment income in Property Casualty and Institutional Markets, which was primarily due to lower alternative investment income performance.

Consumer Insurance pre-tax operating income decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year, reflecting lower net investment income, primarily due to alternative investment income performance, and less favorable adjustments to reflect an update of actuarial assumptions compared to the same period in the prior year. These decreases were partially offset by higher policy and advisory fees in the three-month period ended September 30, 2015 compared to the same period in the prior year, driven by growth in separate account assets under management in Retirement. Pre-tax operating income decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year primarily due to the same factors as the three-month period, as well as lower base net investment income and less favorable mortality experience in Life.

Our investment portfolio performance declined in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year due to lower income on alternative investments, primarily related to hedge fund performance, lower income on investments for which the fair value option was elected, and lower reinvestment yields.

Net realized capital gains decreased, with net losses in the three-month period ended September 30, 2015, compared to net gains in the same period in the prior year, due to lower realized capital gains from sales of investments, an increase in other-than-temporary impairment charges, and foreign exchange transaction losses compared to foreign exchange transaction gains in the prior year. Net realized capital gains increased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, due to higher realized capital gains from sales of equity securities and fair value gains on embedded derivatives related to variable annuity guarantee features, net of hedges, compared to fair value losses in the same period in the prior year, partially offset by an increase in other-than-temporary impairment charges.

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Our Performance – Selected Indicators

(in millions, except per share data and ratios)	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Results of operations data:				
Total revenues	**$ 12,822**	$ 16,697	**$ 44,496**	$ 48,996
Income (loss) from continuing operations	**(180)**	2,199	**4,071**	6,864
Net income (loss) attributable to AIG	**(231)**	2,192	**4,037**	6,874
Net Income (loss) per common share attributable to AIG (diluted)	**(0.18)**	1.52	**2.97**	4.71
After-tax operating income attributable to AIG	**$ 691**	$ 1,722	**$ 4,275**	$ 5,259
After-tax operating income per common share attributable to AIG (diluted)	**0.52**	1.19	**3.15**	3.60
Key metrics:				
Commercial Insurance				
Pre-tax operating income	**$ 815**	$ 1,240	**$ 3,777**	$ 4,286
Property Casualty combined ratio	**102.7**	102.1	**99.6**	99.2
Property Casualty accident year combined ratio, as adjusted	**96.6**	92.7	**94.9**	94.2
Property Casualty net premiums written	**$ 5,202**	$ 5,509	**$ 15,832**	$ 16,328
Mortgage Guaranty domestic first-lien new insurance written	**14,483**	12,643	**40,215**	31,305
Institutional Markets premiums and deposits	**159**	2,840	**985**	3,182
Consumer Insurance				
Pre-tax operating income	**$ 657**	$ 1,264	**$ 2,625**	$ 3,551
Personal Insurance combined ratio	**99.6**	99.4	**100.9**	100.4
Personal Insurance accident year combined ratio, as adjusted	**99.2**	99.1	**100.0**	99.5
Personal Insurance net premiums written	**$ 3,016**	$ 3,241	**$ 8,861**	$ 9,546
Retirement premiums and deposits	**6,625**	5,863	**18,204**	18,033
Life premiums and deposits	**1,223**	1,163	**3,695**	3,557
Life Insurance Companies assets under management	**332,886**	333,978	**332,886**	333,978

(in millions, except per share data)	**September 30, 2015**	December 31, 2014

Balance sheet data:		
Total assets	**$501,985**	$ 515,581
Long-term debt	**30,719**	31,217
Total AIG shareholders' equity	**98,999**	106,898
Book value per common share	**79.40**	77.69
Book value per common share, excluding AOCI	**74.14**	69.98
Book value per common share, excluding AOCI and DTA	**61.91**	58.23

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	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Year Ended December 31, 2014
Return on equity	**(0.9)%**	8.1%	**5.1%**	8.7%	7.1%
Return on equity - after-tax operating income, excluding AOCI	**2.9**	7.1	**6.0**	7.3	6.9
Return on equity - after-tax operating income, excluding AOCI and DTA	**3.5**	8.5	**7.1**	8.9	8.4

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)		**September 30, 2015**		December 31, 2014
Total AIG shareholders' equity	**$**	**98,999**	$	106,898
Accumulated other comprehensive income		**6,557**		10,617
Total AIG shareholders' equity, excluding AOCI		**92,442**		96,281
Deferred tax assets		**15,252**		16,158
Total AIG shareholders' equity, excluding AOCI and DTA	**$**	**77,190**	$	80,123
Total common shares outstanding		**1,246,794,615**		1,375,926,971
Book value per common share	**$**	**79.40**	$	77.69
Book value per common share, excluding AOCI		**74.14**		69.98
Book value per common share, excluding AOCI and DTA	**$**	**61.91**	$	58.23

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.

(dollars in millions)		Three Months Ended September 30, **2015**		2014		Nine Months Ende September 30, **2015**		20
Actual or annualized net income (loss) attributable to AIG	**$**	**(924)**	$	8,768	**$**	**5,383**	$	9,1
Actual or annualized after-tax operating income attributable to AIG		**2,764**		6,888		**5,700**		7,0
Average AIG Shareholders' equity		**101,629**		108,371		**104,534**		105,2
Average AOCI		**7,089**		11,421		**8,863**		9,5
Average AIG Shareholders' equity, excluding average AOCI		**94,540**		96,950		**95,671**		95,6

Average DTA		**15,271**		15,790		**15,567**	16,7
Average AIG Shareholders' equity, excluding average AOCI and DTA	**$**	**79,269**	$	81,160	**$**	**80,104**	$ 78,9
ROE		**(0.9)%**		8.1%		**5.1%**	8
ROE - after-tax operating income, excluding AOCI		**2.9**		7.1		**6.0**	7
ROE - after-tax operating income, excluding AOCI and DTA		**3.5**		8.5		**7.1**	8

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Total revenues

(in millions)

Income (loss) from continuing operations

(in millions)

Net income (loss) ATTRIBUTABLE TO AIG

(in millions)

Net INCOME (Loss) PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)

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)

* Includes a gain of $1.4 billion associated with the completion of the sale of ILFC.

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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.

Investment Highlights

Net investment income decreased to $3.2 billion and $10.9 billion in the three- and nine-month periods ended September 30, 2015, respectively, compared to $4.0 billion and $12.1 billion, respectively, in the same periods in the prior year due to lower income on alternative investments, primarily related to hedge fund performance, lower income on assets for which the fair value option was elected, and lower reinvestment yields. 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 decreased to approximately $13.0 billion as of September 30, 2015, from approximately $19.0 billion as of December 31, 2014, primarily due to a widening of credit spreads.

The overall credit rating of our fixed maturity securities portfolio remains largely unchanged from December 31, 2014.

Liquidity and Capital Resources Highlights

We reduced our debt by $498 million in the nine-month period ended September 30, 2015, primarily as a result of maturities, repayments and repurchases of $8.5 billion, offset in part by new debt issuances of $6.5 billion.

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We maintained financial flexibility at AIG Parent in the nine-month period ended September 30, 2015 through $2.7 billion in dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and $4.6 billion in dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies. The dividends that AIG Parent received in the nine-month period ended September 30, 2015 included $2.8 billion of dividends that were declared during the fourth quarter of 2014.

Our Board of Directors increased our share repurchase authorization of AIG Common Stock, par value $2.50 per share (AIG Common Stock), by an additional $5.0 billion on August 3, 2015. As of October 31, 2015, approximately $2.9 billion remained under our repurchase authorization. During the nine-month period ended September 30, 2015, we repurchased approximately 129 million shares of AIG Common Stock for an aggregate purchase price of approximately $7.5 billion. The total number of shares of AIG Common Stock repurchased in the nine-month period ended September 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. Pursuant to an Exchange Act Rule 10b5-1 plan, from October 1 to October 31, 2015, we have repurchased approximately $602 million of additional shares of AIG Common Stock.

We paid a cash dividend on AIG Common Stock of $0.125 per share on each of March 26, 2015 and June 25, 2015, and $0.28 per share on September 28, 2015.

Our Board of Directors declared a cash dividend on AIG Common Stock on November 2, 2015 of $0.28 per share, payable on December 21, 2015 to shareholders of record on December 7, 2015.

We received net cash proceeds of approximately $4.2 billion in the aggregate from the sale of approximately 97.6 million ordinary shares of AerCap in June and September 2015.

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 continue to operate under difficult market conditions in 2015, characterized by factors such as historically low interest rates, instability in the global equity markets and slowing growth in emerging markets, China and Euro-Zone economies.

Interest rates remain low relative to historical levels, which has affected our industry by reducing investment returns and unfavorably affecting loss reserve discounting, primarily related to our workers' compensation reserves. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

Currency volatility in the three- and nine-month periods ended September 30, 2015 was particularly acute compared to the same periods in the prior year, as the three major foreign currencies that we transact in weakened considerably against the U.S. dollar. 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 throughout the year, in either direction, and such fluctuations will affect net premiums written growth trends reported in U.S. dollars, as well as financial statement line item comparability.

See Results of Operations – Foreign Currency Impact; Results of Operations – Segment Results – Quarterly and Year-to-date Pre-Tax Income Comparison for 2015 and 2014; Results of Operations – Commercial Insurance – Property Casualty Net

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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 2015 and beyond:

- Improve our focus on our customers to understand their challenges and to help solve their problems;
- Simplify our operations, which will lead to quicker, better decisions; bring us closer to our customers; and reduce costs;
- Improve our technology infrastructure to better serve customers and distribution partners, increase productivity, reduce expenses, and better position ourselves against our competitors; and
- Concentrate on activities that increase our intrinsic value and sustainable profitability.

The outlook for each of our businesses and management initiatives to improve growth and performance in 2015 and over the longer term is summarized below. See our 2014 Annual Report for additional information concerning strategic initiatives and opportunities for each of our businesses.

COMMERCIAL INSURANCE Strategic initiatives and Outlook

Customer —Aspire to be our customers' most valued insurer by offering innovative products, excellent service and access to an extensive global network.

Strategic Growth — Grow our higher-value businesses while investing in transformative opportunities.

Underwriting Excellence — Improve our business portfolio through better pricing and risk selection by using enhanced data, analytics and the application of science to deliver superior risk adjusted returns.

Claims Excellence — Improve claims processes, analytics and tools to deliver superior customer service and decrease our loss ratio.

Operational Effectiveness — Continue initiatives to modernize our technology and infrastructure; implement best practices to improve speed and quality of service.

Capital Efficiency — Increase capital fungibility and diversification, streamline our legal entity structure, optimize reinsurance and improve tax efficiency.

Investment Strategy — Increase asset diversification and take advantage of yield enhancement opportunities to meet our capital, liquidity, risk and return objectives.

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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 challenge growth of net investment income and limit growth and profitability in some markets. 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 offset the effect of current economic challenges. In the first half of 2015, the property casualty insurance industry experienced modest growth and an increase in overall exposures in certain markets, although this growth may be leveling off. Property Casualty also expects that expansion in certain growth economies will occur 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 will continue to decline through 2016.

Overall, Property Casualty experienced a modest increase in rate pressure in the third quarter of 2015 compared to the second quarter of 2015. 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 Act (TRIA) in addition to limited private reinsurance protections. For additional information on TRIA, 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 2014 Annual Report.

Mortgage Guaranty

During the nine-month period ended September 30, 2015, the U.S. market experienced an increase in mortgage loan originations driven by a decrease in residential mortgage interest rates in the latter part of 2014, and increased purchase volume favorably impacted by a drop in unemployment, improving housing prices, and lower down payment requirements. If the current economic environment persists, Mortgage Guaranty expects to benefit through increased volume driven by purchase volume and for policies originated in the higher interest rate environment prior to 2012, refinancing activity. Mortgage Guaranty also expects current interest rates to have a favorable impact on the persistency of business written during 2012 and the first half of 2013, since refinancing would be unattractive to homeowners who originated mortgages at the lower residential mortgage interest rates prevalent in that time period.

Mortgage Guaranty also expects that newly reported delinquencies will continue to decline during the remainder of 2015 and into 2016. Mortgage Guaranty believes the combination of the factors described above will result in favorable operating results for the remainder of 2015 and into 2016.

On July 10, 2014, the Federal Housing Finance Agency, the conservator of Fannie Mae and Freddie Mac (collectively, the GSEs) issued in draft form for public comment new eligibility requirements for private mortgage insurers that provide insurance on loans owned or guaranteed by them. The initial Private Mortgage Insurer Eligibility Requirements (PMIERs) were issued by the GSEs on April 17, 2015 and revised on June 30, 2015. The new requirements, which will be effective on December 31, 2015, will mandate mortgage insurers to hold specified levels and types of assets in order to be able to pay a prescribed level of claims in certain stress scenarios. The most significant change in the revision on June 30, 2015 was a surcharge to the asset

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requirement for lender-paid mortgage insurance for mortgages originated after December 31, 2015. Mortgage Guaranty will meet these requirements on the effective date. These new requirements are not expected to have a material effect on AIG's financial flexibility. Subject to interpretation and prospective amendment of the new requirements by the GSEs, Mortgage Guaranty estimates its minimum required assets under PMIERs would have been $3.1 billion as of September 30, 2015, had the rules been in effect at that time, and its estimated available assets would have exceeded the estimated required assets. Mortgage Guaranty's estimates may change depending on future interpretations or prospective amendments by the GSEs.

Institutional Markets

Institutional Markets is expected to continue growing its assets under management from 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 from our alternative investment portfolio will continue to affect Institutional Markets' results.

Strategic Initiatives

Customer

Our vision is to be our customers' most valued insurer. We expect that investments in underwriting, claims services, client risk services, science and data will continue to differentiate AIG from its peers and drive a superior client experience. An example of this approach can be found with the growth in our large limit property business where investments in client risk services and engineering are opening new opportunities with clients in this segment.

Strategic Growth

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.

As part of our strategic goal of diversifying product offerings and providing customers with greater access to unique insurance programs, on March 31, 2015, we paid approximately $239 million to acquire a controlling stake in NSM Insurance Group (NSM), a leading U.S. managing general agent and insurance program administrator. NSM is known for its unique development and implementation of programs for a broad range of niche customer segments. We expect the acquisition of NSM to facilitate closer strategic coordination and provide us with access to new, attractive markets including programs, specialty small commercial insurance solutions, and complementary distribution networks.

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.

Institutional Markets is expected to 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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Capital Efficiency

Commercial Insurance continues to execute capital management initiatives by enhancing broad based risk tolerance guidelines for its operating units, implementing underwriting strategies to increase return on equity by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. In addition, 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.

We also continue to streamline our legal entity structure to enhance transparency for regulators and optimize capital and tax efficiency, particularly with respect to the Non-Life Insurance Companies in the Property Casualty and Personal Insurance operating segments. Our legal entity restructuring initiatives have enhanced dividend capacity and reduced required capital. Additionally, the restructuring allows us to simplify our reinsurance arrangements, which further facilitate increased capital optimization. We expect our overall legal entity restructuring to be substantially completed in mid-2017, subject to regulatory approvals in the relevant jurisdictions.

consumer insurance STRATEGIC INITIATIVES AND Outlook

Customer — Aspire to be our customers' 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 they need, 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.

Focused Growth — 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.

Operational Effectiveness — Simplify processes, enhance operating environments, and leverage the best platforms and tools for multiple operating segments 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 yield-enhancement opportunities that meet liquidity, risk and return objectives.

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

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, which continues to drive demand for individual variable and fixed index annuities with guaranteed income features. In addition, higher tax rates

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and a desire for better investment returns have prompted less risk-averse investors to seek products without guaranteed living benefits, providing the opportunity to further diversify our product portfolio by offering investment-focused variable annuities.

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. 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 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 April 2015, the U.S. Department of Labor (DOL) issued a proposed regulation that substantially expands the range of activities that would be considered to be fiduciary investment advice under the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code. This proposed regulation has generated substantial attention in our industry. The DOL has held public hearings on the proposal, with the final public comment period for the proposed regulation having concluded in late September 2015. The proposal is subject to additional regulatory review and potential modification before the final regulation, if any, is adopted. It is unknown at this time whether or how any final regulation may be different from that proposed. If finalized as originally proposed, the investment-related information and support that our advisors and employees could provide to ERISA-covered plan sponsors, participants and IRA holders on a non-fiduciary basis could be substantially limited from what is allowed under current law. These changes could have a material impact on the types, levels and compensation structures of the investment products and services we provide.

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.

Personal Insurance

The overall rate level has improved in the Japanese and certain U.S. markets for auto, personal property, and accident and health products compared to prior years. In Japan, car and home sales increased in the first quarter of 2014 prior to a consumption tax increase, but subsequently new car sales have been trending down, while new housing starts have begun to strengthen in recent months. In the U.S., rate level changes for auto and personal property products are expected to be positive but slow, with sales increasing as the economy continues to improve. Our Personal Insurance operating segment continues to invest selectively in markets where we believe higher potential for personal insurance products exists.

Strategic Initiatives

Customer

We are working to expand relationships with key distribution partners to fully realize the benefits of our diverse product offerings across our multiple distribution channels. Our focus on ease of doing business for consumers and producers includes enhancements to our platforms and services, as well as initiatives to improve the recruitment, training and productivity of our affiliated and non-affiliated distribution partners.

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Information-driven Strategy

We believe that strengthening our marketing capabilities through the use of analytics, stronger platforms and tools, an enhanced product portfolio and expanded relationships can allow us to bring more product solutions to our target markets.

We intend to achieve rate adequacy through implementation of global underwriting practices and enhanced tools and analytics, and to optimize the value of our business lines through product and portfolio management and refined technical pricing. We strive to enhance the customer experience and efficiency through claims best practices, and to deploy enhanced operating structures and standardized processes and systems, while managing claims-handling efficiency.

Focused Growth

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 through innovative product design and well-developed economic hedging capabilities. Risk mitigation features of its variable annuity product design include guaranteed minimum withdrawal benefit rider fees that are indexed to an equity market volatility index, required minimum allocations to fixed accounts, and the utilization of volatility control funds. Retirement Income Solutions continues to invest in hedging and market risk management capabilities. Retirement Income Solutions is also focused on diversifying its product portfolio by growing sales of fixed index annuities with guarantee features, which provide additional income solutions for consumers approaching retirement, and introducing new investment-focused variable annuities, which offer various investment options, including alternative asset classes, to investors seeking higher returns.

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. 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 recently announced changes to simplify its structure, improve ease of doing business and better serve the unique needs of the customers in each region. Life’s organization has been aligned to serve its customers in the Americas, Asia Pacific and EMEA regions with a focus on the demographic, governmental and socioeconomic trends unique to each region. As part of this initiative, our Group Benefits business will merge with our U.S. Life, Health and Disability business to focus on strong existing relationships with multi-line and specialty producers. Life intends to expand its business through a focused strategy in selected markets and products, combining global expertise with local market intelligence to meet the needs of consumers in target markets.

On March 31, 2015, we acquired Laya Healthcare, Ireland'ssecond largest primary health insurance provider. Laya Healthcare covers approximately 500,000 lives for primary healthcare, and also offers other adjacent coverage including life, dental and travel insurance.

Personal Insurance aims to provide customers with the products they need, delivered with excellent customer service through the channels they prefer. Personal Insurance is focused on profitable growth in its selected market segments, with targeted investments in both scale businesses and emerging markets. Personal Insurance will continue to leverage 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 significant 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, with the goal of increasing

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our market share and facilitating our expansion in market segments where we expect growth, given current demographic trends. 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 and implementing common functionality across our Consumer Insurance product lines and borders will enhance productivity and support further profitable growth.

Profitability and Capital Management

We are focused on enhancing profitability and capital efficiency within our insurance entities through disciplined pricing, in-force profitability management and effective management of risk. 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 variable annuity business. Additionally, our scale and the breadth of our product offerings provide diversification of risk. Within our Non-Life Insurance Companies, we continue to streamline our legal entity structure to enhance transparency with regulators and optimize capital efficiency.

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

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three- and nine-month periods ended September 30, 2015 and 2014. 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 in Part II, Item 7. MD&A — Critical Accounting Estimates in the 2014 Annual Report.

The following table presents our consolidated results of operations:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percenta
(in millions)	**2015**	2014	Change	**2015**	2014	Chan
Revenues:						
Premiums	**$ 8,862**	$ 9,486	(7)%	**$27,229**	$ 28,046	
Policy fees	**701**	677	4	**2,066**	1,948	
Net investment income	**3,206**	4,028	(20)	**10,870**	12,108	(1
Net realized capital gains (losses)	**(342)**	536	NM	**1,125**	546	1

Aircraft leasing revenue	**-**	-	NM	**-**	1,602	N
Other income	**395**	1,970	(80)	**3,206**	4,746	(3
Total revenues	**12,822**	16,697	(23)	**44,496**	48,996	
Benefits, losses and expenses:						
Policyholder benefits and losses incurred	**6,936**	7,203	(4)	**20,587**	20,771	
Interest credited to policyholder account balances	**881**	882	-	**2,758**	2,800	
Amortization of deferred policy acquisition costs	**1,275**	1,288	(1)	**3,981**	3,989	
General operating and other expenses	**3,175**	3,151	1	**9,214**	9,889	
Interest expense	**321**	430	(25)	**977**	1,372	(2
Loss on extinguishment of debt	**346**	742	(53)	**756**	1,014	(2
Aircraft leasing expenses	**-**	-	NM	**-**	1,585	N
Net (gain) loss on sale of divested businesses	**3**	(18)	NM	**10**	(2,196)	N
Total benefits, losses and expenses	**12,937**	13,678	(5)	**38,283**	39,224	
Income (loss) from continuing operations before income tax expense	**(115)**	3,019	NM	**6,213**	9,772	(3
Income tax expense	**65**	820	(92)	**2,142**	2,908	(2
Income (loss) from continuing operations	**(180)**	2,199	NM	**4,071**	6,864	(4
Income (loss) from discontinued operations, net of income tax expense	**(17)**	2	NM	**-**	(15)	N
Net income (loss)	**(197)**	2,201	NM	**4,071**	6,849	(4

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Less: Net income (loss) attributable to noncontrolling interests	**34**	9	278	**34**	(25)	NM
Net income (loss) attributable to AIG	**$ (231)**	$ 2,192	NM%	**$ 4,037**	$ 6,874	(41)%

For the three-month period ended September 30, 2015, the effective tax rate on loss from continuing operations was not meaningful, due to a tax charge on a pre-tax loss. The tax charge was primarily due to increases in uncertain tax positions related to cross-border financing transactions, partially offset by tax benefits associated with tax-exempt interest income and the partial completion of the Internal Revenue Service examination covering tax year 2006.

For the nine-month period ended September 30, 2015, the effective tax rate on income from continuing operations was 34.5 percent. The effective tax rate on income from continuing operations for the nine-month period ended September 30, 2015 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 the partial completion of the Internal Revenue Service examination covering tax year 2006, partially offset by tax charges associated with increases in uncertain tax positions related to cross-border financing transactions and increases in the deferred tax asset valuation allowances associated with certain foreign jurisdictions. The nine-month period ended September 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.

For the three- and nine-month periods ended September 30, 2014, the effective tax rate on income from continuing operations was 27.2 percent and 29.8 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 and a decrease in the U.S. Life Insurance Companies' capital loss carryforward deferred tax asset valuation allowance.

The following table presents a reconciliation of net income (loss) attributable to AIG to after-tax operating income attributable to AIG:

	Three Months Ended September 30,		Nine Months September
(in millions)	**2015**	2014	**2015**
Net income (loss) attributable to AIG	**$ (231)**	$ 2,192	**$ 4,037** $
Uncertain tax positions and other tax adjustments	**233**	(25)	**142**
Deferred income tax valuation allowance (releases) charges	**8**	(21)	**61**
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**(3)**	(21)	**25**
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	**2**	29	**55**

Loss on extinguishment of debt		**225**		482		**491**	
Net realized capital (gains) losses		**262**		(301)		**(691)**	
(Income) loss from discontinued operations		**17**		(2)		**-**	
(Income) loss from divested businesses		**1**		(42)		**14**	
Non-operating litigation reserves and settlements		**(20)**		(569)		**(56)**	
Reserve development related to non-operating run-off insurance business		**20**		-		**20**	
Restructuring and other costs		**177**		-		**177**	
After-tax operating income attributable to AIG	**$**	**691**	$	1,722	**$**	**4,275**	$
Weighted average diluted shares outstanding		**1,279,072,748**		1,442,067,842		**1,357,108,784**	1,
Income (loss) per common share attributable to AIG (diluted)	**$**	**(0.18)**	$	1.52	**$**	**2.97**	$
After-tax operating income per common share attributable to AIG (diluted)*	**$**	**0.52**	$	1.19	**$**	**3.15**	$

* For the quarter ended September 30, 2015, because we reported a net loss, all common stock equivalents are anti-dilutive and are therefore excluded from the calculation of diluted shares and diluted per share amounts. However, because we reported after-tax operating income, the calculation of after-tax operating income per diluted share includes dilutive shares of 40,356,170.

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After-tax operating income attributable to AIG decreased in both the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year primarily due to a decrease in income from insurance operations, reflecting decreased net investment income, and lower income on assets marked to fair value through earnings, including part of our holdings in People's Insurance Company (Group) of China Limited (PICC Group) and PICC Property & Casualty Company Limited (PICC P&C) shares and assets in Corporate and Other.

For the three-month periods ended September 30, 2015 and 2014, the effective tax rate on pre-tax operating income was 19.3 percent and 33.6 percent, respectively. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax-exempt interest income and other permanent tax items, certain tax benefits associated with the partial completion of the Internal Revenue Service examination covering tax year 2006 and the impact of other discrete tax benefits. For the nine-month periods ended September 30, 2015 and 2014, the effective tax rate on pre-tax operating income was 31.6 percent and 33.1 percent, respectively. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax-exempt interest income and other permanent tax items, certain tax benefits associated with the partial completion of the Internal Revenue Service examination covering tax year 2006 and the impact of other discrete tax benefits.

SEGMENT RESULTS

We report the results of our operations 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.

The following table summarizes the operations of each reportable segment and Corporate and Other. See also Note 3 to the Condensed Consolidated Financial Statements.

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Commercial Insurance	**$ 815**	$1,240	(34)%	**$3,777**	$ 4,286	(12)%
Consumer Insurance	**657**	1,264	(48)	**2,625**	3,551	(26)
Corporate and Other	**(613)**	149	NM	**(79)**	39	NM
Consolidations, eliminations and other adjustments	**(11)**	(68)	84	**(80)**	(42)	(90)
Pre-tax operating income	**$ 848**	$2,585	(67)	**$6,243**	$ 7,834	(20)
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	**4**	32	(88)	**(39)**	162	NM

Changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains (losses)	**(2)**	(45)	96	**(84)**	(90)	7
Loss on extinguishment of debt	**(346)**	(742)	53	**(756)**	(1,014)	25
Net realized capital gains (losses)	**(342)**	536	NM	**1,125**	546	106
Income (loss) from divested businesses	**(3)**	17	NM	**(58)**	2,189	NM
Non-operating litigation reserves and settlements	**30**	636	(95)	**86**	145	(41)
Reserve development related to non-operating run-off insurance business	**(30)**	-	NM	**(30)**	-	NM
Restructuring and other costs	**(274)**	-	NM	**(274)**	-	NM
Pre-tax income (loss)	**$(115)**	$3,019	NM%	**$6,213**	$ 9,772	(36)%

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pre-tax operating income

(in millions)

COMMERCIAL INSURANCE		CONSUMER INSURANCE

QUARTERLY PRE-TAX INCOME COMPARISON FOR 2015 AND 2014

We recorded a pre-tax loss in the three-month period ended September 30, 2015, compared to pre-tax income in the same period in the prior year. The decrease was primarily due to lower Commercial Insurance pre-tax operating income, which reflected lower net investment income and lower underwriting income, and lower Consumer Insurance pre-tax operating income, which reflected lower net investment income and less favorable adjustments to reflect the update of actuarial assumptions, partially offset by higher policy and advisory fees. Lower net realized capital gains from sales of investments and higher other-than-temporary impairment charges, a decrease in non-operating litigation reserves and settlements, and restructuring and other costs also contributed to the decrease in pre-tax income for the three-month period ended September 31, 2015 compared to the same period in the prior year. These decreases were partially offset by lower loss on extinguishment of debt from ongoing liability management activities.

YEAR-TO-DATE PRE-TAX INCOME COMPARISON FOR 2015 AND 2014

Pre-tax income decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to a decrease in Commercial Insurance pre-tax operating income, reflecting lower net investment income and lower underwriting income, and a decrease in Consumer Insurance pre-tax operating income, reflecting lower net investment income, less favorable adjustments to reflect the update of actuarial assumptions and less favorable mortality experience in Life (partially offset by higher policy and advisory fees), as well as restructuring and other costs and lower income from divested businesses as a result of the sale of ILFC in the second quarter of 2014. These decreases were partially offset by a lower loss on extinguishment of debt from ongoing liability management activities and an increase from the change in the fair value of embedded policy derivatives related to variable annuity guaranteed living benefits net of economic hedges, as discussed below. Higher net realized capital gains from sales of investments, which included realized gains on the sales of Class B shares of Prudential Financial, Inc., a portion of our holdings in PICC P&C shares and common shares of Springleaf Holdings Inc. (Springleaf), were partially offset by a realized loss on the sale of ordinary shares of AerCap and an increase in other-than-temporary impairment charges.

The change in the fair value of embedded policy derivatives related to variable annuity GMWB and GMAV, net of the change in fair value of all related economic hedges, increased pre-tax income by $468 million in the nine-month period ended September 30, 2015 compared to the same period in the prior year. The overall increase in market interest rates during the first half of 2015 drove a decrease in the liability for GMWB and GMAV, which was partially offset by a decrease in market interest rates and lower equity market performance in the three-month period ended September 30, 2015. The net decrease in the fair value of the GMWB and GMAV in the nine-month period ended September 30, 2015 and the impact of interest rate and equity hedges, including losses in the fair value of bonds used to hedge interest rate and credit spread risks, resulted in an increase

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in pre-tax income compared to the same period in the prior year, in which the net impact was not significant. A small portion of the increase in the GMWB liability was due to annual review and update of actuarial assumptions. See Insurance Reserves – Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for additional discussion.

Net Investment Income

Net investment income is attributed to the operating segments of Commercial Insurance and Consumer Insurance based on internal models consistent with the nature of the underlying businesses.

For Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance, we estimate investable funds based primarily on loss reserves, unearned premiums and a capital allocation for each operating segment. The net investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus a liquidity premium) consistent with the approximate duration of the liabilities, and excludes net investment income associated with the run-off insurance lines reported in Corporate and Other. The remaining excess is attributed to Commercial Insurance — Property Casualty and Consumer Insurance — Personal Insurance based on the relative net investment income previously allocated.

For Commercial Insurance — Institutional Markets, Consumer Insurance — Retirement and Consumer Insurance — Life, net investment income is attributed based on invested assets from segregated product line portfolios. Invested assets in excess of liabilities are allocated to product lines based on internal capital estimates.

Foreign Currency Impact

Property Casualty, International Life and Personal Insurance businesses are transacted in most major foreign currencies. The following table presents the average of the quarterly weighted average exchange rates of the currencies that have the most significant impact on our businesses:

Rate for 1 USD	Three Months Ended September 30, **2015**	Three Months Ended September 30, 2014	Percentage Change	Nine Months Ended September 30, **2015**	Nine Months Ended September 30, 2014	Percentage Change
Currency:						
JPY	**123.35**	102.24	21%	**120.79**	102.53	18%
EUR	**0.90**	0.74	22%	**0.89**	0.73	22%
GBP	**0.64**	0.59	8%	**0.65**	0.60	8%

Unless otherwise noted, references to the effects of foreign exchange in the Commercial and Consumer discussion of results of operations are with respect to movements in the three currencies included in the preceding table (the Major Currencies).

COMMERCIAL INSURANCE

Commercial Insurance presents its financial information in three operating segments – Property Casualty, Mortgage Guaranty and Institutional Markets.

Property Casualty provides insurance solutions for large and small businesses. The products offered by the Property Casualty operating segment include general liability, commercial automobile liability, workers' compensation, excess casualty, crisis management, including customized structured programs for large corporate and multinational customers, commercial, industrial property and energy-related property insurance products and services that cover exposures to man-made and natural disasters, including business interruption, aerospace, environmental, political risk, trade credit, surety, marine, various small and medium sized enterprises insurance lines, director and officers' liability (D&O), errors and omissions (E&O), fidelity,

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employment practices, fiduciary liability, cybersecurity risk, and kidnap and ransom. Property Casualty products are primarily distributed through a network of independent retail and wholesale brokers, and through an independent agency network.

Mortgage Guaranty provides mortgage insurance that protects residential mortgage investors against the increased risk of borrower default related to high loan-to-value mortgages. Mortgage Guaranty products and services are distributed to a comprehensive range of mortgage originators including national mortgage companies, community and money center banks, as well as through builder-owned mortgage companies, regional mortgage companies and internet-sourced lenders and credit unions.

Institutional Markets offers retirement and savings products that are marketed to groups or large institutions. The products offered by the Institutional Markets operating segment primarily include stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance and GICs. Institutional Markets products are primarily distributed through specialized marketing and consulting firms and structured settlement brokers.

See Part I, Item 1. Business in AIG's 2014 Annual Report for further discussion of our products and geographic regions where we distribute our products.

Commercial Insurance Results

The following table presents Commercial Insurance results:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Revenues:						
Premiums	**$5,352**	$5,692	(6)%	**$16,580**	$16,712	(1)%
Policy fees	**49**	49	-	**148**	138	7
Net investment income	**1,158**	1,572	(26)	**4,341**	4,815	(10)
Benefits and expenses:						
Policyholder benefits and losses incurred	**4,071**	4,385	(7)	**12,387**	12,320	1
Interest credited to policyholder account balances	**102**	105	(3)	**306**	308	(1)
Amortization of deferred policy acquisition costs	**580**	648	(10)	**1,769**	1,900	(7)
General operating and other expenses*	**991**	935	6	**2,830**	2,851	(1)
Pre-tax operating income	**$ 815**	$1,240	(34)%	**$ 3,777**	$ 4,286	(12)%

* Includes general operating expenses, commissions and other acquisition expenses.

Commercial Insurance Results by Operating Segment

The following section provides a comparative discussion of Commercial Insurance Results of Operations for the three- and nine-month periods ended September 30, 2015 and 2014 by operating segment.

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Property Casualty Results

The following table presents Property Casualty results:

(in millions)	Three Months Ended September 30, 2015	2014	Percentage Change	Nine Months Ended September 30, 2015	2014	Percentage Change
Underwriting results:						
Net premiums written	**$5,202**	$5,509	(6)%	**$15,832**	$16,328	(3)%
Increase in unearned premiums	**(197)**	(152)	(30)	**(794)**	(650)	(22)
Net premiums earned	**5,005**	5,357	(7)	**15,038**	15,678	(4)
Losses and loss adjustment expenses incurred	**3,666**	3,977	(8)	**10,640**	11,052	(4)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**571**	643	(11)	**1,745**	1,882	(7)
Other acquisition expenses	**252**	177	42	**644**	568	13
Total acquisition expenses	**823**	820	-	**2,389**	2,450	(2)
General operating expenses	**657**	676	(3)	**1,944**	2,053	(5)
Underwriting income (loss)	**(141)**	(116)	(22)	**65**	123	(47)
Net investment income	**710**	1,068	(34)	**2,866**	3,190	(10)
Pre-tax operating income	**$ 569**	$ 952	(40)%	**$ 2,931**	$ 3,313	(12)%

NET PREMIUMS WRITTEN

(in millions)

Pre-Tax oPERATING INCOME

(in millions)

Property Casualty Quarterly Results

Pre tax operating income decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year primarily due to a decrease in net investment income and, to a lesser extent, an increase in underwriting loss. The increase in underwriting loss reflected a higher current accident year loss ratio, as adjusted, as well as a net loss reserve discount charge for workers' compensation reserves in the three-month period ended September 30, 2015, compared to a net loss reserve discount benefit in the same period in the prior year, which were partially offset by lower catastrophe losses and a decrease in net adverse prior year loss reserve development. The current accident year loss ratio, as adjusted, increased primarily due to higher current accident year losses in healthcare and in U.S. commercial automobile liability, as well as higher attritional and severe losses in Property, partially offset by lower accident year losses in Specialty in all regions. The current accident year losses for the three-month period ended September 30, 2015 included six severe losses totaling $209 million compared to nine severe losses totaling $188 million in the same period in the prior year. The net loss reserve discount charge was $41 million in the three-month period ended September 30, 2015, compared to a benefit of $16 million in the same period

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in the prior year, primarily reflecting declines in Treasury rates, which were partially offset by an increase in credit spreads. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion. Catastrophe losses were $88 million in the three-month period ended September 30, 2015, compared to $262 million in the same period in the prior year. Net adverse prior year loss reserve development, including return premiums of $30 million, was $186 million in the three-month period ended September 30, 2015, compared to $226 million, which included additional premiums of $93 million in the same period of the prior year. The net adverse prior year loss reserve development decreased primarily due to a decrease in net adverse prior year loss reserve development in Casualty, and an increase in net favorable prior year loss development in Property, partially offset by an increase in net adverse prior year loss reserve development in Specialty environmental. See Insurance Reserves – Non-Life Insurance Companies – Quarterly and Year-to-Date Net Loss Development for further discussion.

Acquisition expenses increased slightly in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to an increase in commission expenses in certain classes of business in Specialty mostly offset by the strengthening of the U.S. dollar against the Major Currencies, as discussed above.

General operating expenses decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as discussed above. Excluding the effect of foreign exchange, general operating expenses increased primarily due to the acquisition of NSM, whose expenses were consolidated commencing in the second quarter of 2015. This increase was partially offset by lower pension expenses from a pension curtailment credit, and efficiencies from organizational realignment initiatives.

Net investment income decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to losses on alternative investments reflecting negative performance in hedge funds as well as fair market value declines on assets accounted for under the fair value option, particularly in PICC P&C shares. In the same period in the prior year, Property Casualty recorded net investment income on both alternative investments and the PICC P&C shares.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

Property Casualty Year-to-Date Results

Pre tax operating income decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year primarily due to a decrease in net investment income and lower underwriting income. Underwriting income decreased primarily due to an increase in net adverse prior year loss reserve development and higher current accident year loss ratio, as adjusted, partially offset by decreases in catastrophe losses. Net adverse prior year loss reserve development, including related premium adjustments, was $493 million in the nine-month period ended September 30, 2015, compared to

$323 million in the same period in the prior year. The increase in net adverse prior year loss reserve development was primarily due to higher prior year loss reserve development in Casualty, partially offset by an improvement in Financial lines and Specialty. Premium adjustments consisted of return premiums of $53 million in the nine-month period ended September 30, 2015, compared to additional premiums of $157 million in the same period in the prior year. See Insurance Reserves – Non-Life Insurance Companies – Quarterly and Year-to-Date Net Loss Development for further discussion. Current accident year loss ratio, as adjusted, increased primarily due to higher current accident year losses in U.S. Casualty. Net loss reserve discount benefit was $136 million in the nine-month period ended September 30, 2015 compared to $158 million in the same period in the prior year. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion. Catastrophe losses were $368 million in the nine-month period ended September 30, 2015 compared to $567 million in the same period in the prior year.

Acquisition expenses decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to the strengthening of the U.S. dollar against the Major Currencies, as discussed above. Excluding the effect of foreign exchange, acquisition expenses increased primarily due to an increase in commission expenses in certain classes of business in Specialty.

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General operating expenses decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to efficiencies from organizational realignment initiatives, partially offset by increased technology-related costs, and the acquisition of NSM, whose expenses were consolidated commencing in the second quarter of 2015.

Net investment income decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to lower income on alternative investments and a decrease in net investment income related to assets accounted for under the fair value option.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

Property Casualty Net Premiums Written

The following table presents Property Casualty's net premiums written by major line of business:

(in millions)	Three Months Ended September 30, 2015	2014	Percentage Change in U.S. Dollars	Original Currency	Nine Months Ended September 30, 2015	2014	Percentage Change in U.S. Dollars	Original Currency
Casualty	**$ 1,711**	$ 1,968	(13)%	(10)%	**$ 5,405**	$ 5,990	(10)%	(6)%
Property	**1,482**	1,482	-	6	**4,117**	4,144	(1)	5
Specialty	**897**	911	(2)	3	**2,769**	2,805	(1)	4
Financial lines	**1,112**	1,148	(3)	2	**3,541**	3,389	4	10
Total Property Casualty net premiums written	**$ 5,202**	$ 5,509	(6)%	(1)%	**$ 15,832**	$ 16,328	(3)%	2%

Property Casualty NET PREMIUMS WRITTEN by Line of Business

(in millions)

Property Casualty Quarterly and Year-to-Date Net Premiums Written

Property Casualty net premiums written decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to continued execution of our strategy to enhance risk selection and optimize our

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product portfolio in the U.S. Casualty business, as well as strengthening of the U.S. dollar against the Major Currencies. The effect of foreign exchange was partially offset by an increase in new and renewal business in all other lines of business. Net premiums written decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased for the nine-month period ended September 30, 2015 from the same period in the prior year, primarily due to the first quarter renewal of a multi-year policy in U.S. Financial lines, and new business growth in Property and Financial lines across all regions, partially offset by a decrease in U.S. Casualty as a result of continued focus on the execution of its strategic objectives and the optimization of its product portfolio.

Casualty net premiums written decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year reflecting rate pressure and continued execution of our strategy to enhance risk selection and optimize our product portfolio particularly in the U.S. Additionally, net premiums written included return premiums related to the loss sensitive businesses of $30 million and $53 million, for the three- and nine-month periods ended September 30, 2015, respectively, compared to additional premiums of $93 million and $157 million in the same periods in the prior year, respectively. An increase in new business in targeted growth products in the nine-month period ended September 30, 2015, particularly in EMEA, was more than offset by the declines in certain residual programs.

Property net premiums written were unchanged in the three -month period ended September 30, 2015, compared to the same period in the prior year and declined slightly in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to the strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in the three- and nine-month periods ended September 30, 2015 from the same periods in the prior year, primarily due to higher retention and new business in the Americas and Asia Pacific regions.

Specialty net premiums written decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year primarily due to the strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to new business increases in targeted growth products, particularly in the U.S., partially offset by a slight decline in U.S. and EMEA Aerospace. Excluding the effect of foreign exchange, net premiums written increased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to new business increases and higher retention related to targeted growth products, particularly in the Americas, and EMEA, partially offset by a decrease in certain classes of business, particularly in the U.S as a result of the effect of our strategy to enhance risk selection.

Financial lines net premiums written decreased in the three -month period ended September 30, 2015 compared to the same periods in the prior year primarily due to the strengthening of the U.S. dollar against the Major Currencies. Excluding the effect of foreign exchange, net premiums written increased in the three-month period ended September 30, 2015 compared to the same period in the prior year reflecting continued execution of our growth strategy, particularly in the Americas, partially offset by a decrease in certain classes of business as a result of increased competition and underwriting discipline. Net premiums written increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year primarily due to strong growth in new business and higher retention related to targeted growth products across all regions, partially offset by the strengthening of the U.S. dollar against the major currencies. Additionally, the nine-month period ended September 30, 2015, reflected the first quarter renewal of a multi-year E&O policy in the U.S.

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Property Casualty Net Premiums Written by Region

The following table presents Property Casualty's net premiums written by region:

(in millions)	Three Months Ended September 30, **2015**	2014	Percentage Change in U.S. dollars	Percentage Change in Original Currency	Nine Months Ended September 30, **2015**	2014	Percentage Change in U.S. dollars	Percentag Change Origin Currenc
Property Casualty:								
Americas	**$3,525**	$3,643	(3)%	(2)%	**$10,366**	$10,548	(2)%	(
Asia Pacific	**519**	590	(12)	2	**1,461**	1,550	(6)	
EMEA	**1,158**	1,276	(9)	1	**4,005**	4,230	(5)	
Total net premiums written	**$5,202**	$5,509	(6)%	(1)%	**$15,832**	$16,328	(3)%	

property casualty NET PREMIUMS WRITTEN by Region

(in millions)

The Americas net premiums written decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year, primarily due to continued execution of our strategy to enhance risk selection and optimize our product portfolio in Casualty largely offset by strong growth in new business related to targeted growth products in Property, Specialty and Financial lines. Additionally, for the nine-month period ended September 30, 2015, net premiums written reflected the renewal of a multi-year E&O policy in the U.S.

Asia Pacific net premiums written decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year due to the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year, primarily due to higher retention and new business in all lines of business.

EMEA net premiums written decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year primarily due to the strengthening of the U.S. dollar against the euro and British pound. Excluding the effect of foreign exchange, in the three-month period ended September 30, 2015 compared to the same period in the prior year, net premiums written increased primarily due to the increases in targeted growth products partially offset by a decline in certain classes of business, particularly in Casualty. Excluding the effect of foreign exchange, net premiums written

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increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year primarily due to new business growth in targeted growth products and higher retention across most lines of business.

Property Casualty Underwriting Ratios

The following tables present the Property Casualty combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Increase (Decrease)	**2015**	2014	Increase (Decrease)
Loss ratio	**73.2**	74.2	(1.0)	**70.8**	70.5	0.3
Catastrophe losses and reinstatement premiums	**(1.7)**	(4.8)	3.1	**(2.5)**	(3.6)	1.1
Prior year development net of premium adjustments	**(3.6)**	(4.9)	1.3	**(3.1)**	(2.4)	(0.7)
Net reserve discount benefit	**(0.8)**	0.3	(1.1)	**0.9**	1.0	(0.1)
Accident year loss ratio, as adjusted	**67.1**	64.8	2.3	**66.1**	65.5	0.6
Acquisition ratio	**16.4**	15.3	1.1	**15.9**	15.6	0.3
General operating expense ratio	**13.1**	12.6	0.5	**12.9**	13.1	(0.2)
Expense ratio	**29.5**	27.9	1.6	**28.8**	28.7	0.1
Combined ratio	**102.7**	102.1	0.6	**99.6**	99.2	0.4
Catastrophe losses and reinstatement premiums	**(1.7)**	(4.8)	3.1	**(2.5)**	(3.6)	1.1
Prior year development net of premium adjustments	**(3.6)**	(4.9)	1.3	**(3.1)**	(2.4)	(0.7)
Net reserve discount benefit	**(0.8)**	0.3	(1.1)	**0.9**	1.0	(0.1)
Accident year combined ratio, as adjusted	**96.6**	92.7	3.9	**94.9**	94.2	0.7

property casualty ratios	
Three Months Ended September 30,	**Nine Months Ended September 30,**

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See Insurance Reserves – Non-Life Insurance Companies for further discussion of discounting of reserves and prior year development.

The following tables present Property Casualty's accident year catastrophe and severe losses by region and number of events:

Catastrophes [(a)]

(in millions)	# of Events	Americas	Asia Pacific	EMEA	Total
Three Months Ended September 30, 2015					
Flooding	**-**	**$ (1)**	**$ -**	**$ -**	**$ (1)**
Windstorms and hailstorms	**2**	**1**	**42**	**(2)**	**41**
Wildfire	**1**	**9**	**-**	**-**	**9**
Tropical cyclone	**1**	**-**	**14**	**-**	**14**
Earthquakes	**1**	**25**	**-**	**-**	**25**
Total catastrophe-related charges	**5**	**$ 34**	**$ 56**	**$ (2)**	**$ 88**
Three Months Ended September 30, 2014					
Flooding	2	$ 35	$ -	$ -	$ 35
Windstorms and hailstorms	5	143	21	12	176
Earthquakes	1	49	-	-	49
Reinstatement premiums		-	-	2	2

Total catastrophe-related charges	8	$	227	$	21	$	14 $	262
Nine Months Ended September 30, 2015								
Flooding	**2**	**$**	**66**	**$**	**-**	**$**	**2 $**	**68**
Windstorms and hailstorms	**10**		**175**		**56**		**21**	**252**
Wildfire	**1**		**9**		**-**		**-**	**9**
Tropical cyclone	**1**		**-**		**14**		**-**	**14**
Earthquakes	**1**		**25**		**-**		**-**	**25**
Total catastrophe-related charges	**15**	**$**	**275**	**$**	**70**	**$**	**23 $**	**368**

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Nine Months Ended September 30, 2014					
Flooding	2	$ 35	$ -	$ -	$ 35
Windstorms and hailstorms	14	382	66	33	481
Earthquakes	1	49	-	-	49
Reinstatement premiums		-	-	2	2
Total catastrophe-related charges	17	$ 466	$ 66	$ 35	$ 567

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of $10 million each.

Severe Losses[b]

(in millions)	# of Events	Americas	Asia Pacific	EMEA	Total
Three Months Ended September 30,					
2015	**6**	**$ 53**	**$ 2**	**$ 154**	**$ 209**
2014	9	$ 62	$ 18	$ 108	$ 188
Nine Months Ended September 30,					
2015	**22**	**$ 288**	**$ 2**	**$ 237**	**$ 527**
2014	25	$ 170	$ 73	$ 283	$ 526

(b) Severe losses are defined as non-catastrophe individual first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation.

Property Casualty Quarterly and Year-to-Date Insurance Ratios

The combined ratio increased by 0.6 points in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to an increase in the expense ratio partially offset by a decrease in the loss ratio. The loss ratio decreased by 1.0 point in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to lower catastrophe losses and a decrease in the net adverse prior year loss development partially offset by higher attritional losses and an increased net loss reserve discount charge. The combined ratio increased by 0.4 points in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to higher accident year losses. The loss ratio increased by 0.3 points in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to higher net adverse prior year loss development and an increase in attritional losses partially offset by lower catastrophe losses.

The accident year combined ratio, as adjusted, increased by 3.9 points and 0.7 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year, primarily due to a higher accident year loss ratio, as adjusted, and an increase in the acquisition ratio.

The accident year loss ratio, as adjusted, increased by 2.3 points in the three-month period ended September 30, 2015, compared to the same period in the prior year, reflecting higher current accident year losses in healthcare and in commercial automobile liability in U.S. Casualty, as well as higher attritional losses and severe losses in Property, partially offset by an improvement in Specialty and certain workers' compensation and primary business in U.S. Casualty as a result of our focus on portfolio optimization. The accident year loss ratio, as adjusted, increased by 0.6 points in the nine-month period ended September 30, 2015, compared to the same period in the prior year, reflecting an increase in healthcare and commercial automobile liability in U.S. Casualty, partially offset by lower attritional losses in U.S. Property, and Specialty, particularly in the U.S. and EMEA. Severe losses represented approximately 4.2 points and 3.5 points of the accident year loss ratio, as adjusted, in the three- and nine-month periods ended September 30, 2015, respectively, compared to 3.5 points and 3.4 points, respectively, in the same periods in the prior year.

The acquisition ratio increased by 1.1 points and 0.3 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year primarily due to higher commission expenses in certain classes of business in Specialty.

The general operating expense ratio increased by 0.5 points in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to a lower net premium earned base and the acquisition of NSM, whose expenses were consolidated commencing in the second quarter of 2015, partially offset by cost efficiency and lower pension

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expenses. The general operating expense ratio decreased by 0.2 points in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to efficiencies from organizational realignment initiatives partially offset by the NSM addition to expenses, higher technology-related expenses, as well as a lower net premium earned base.

Mortgage Guaranty Results

The following table presents Mortgage Guaranty results:

(dollars in millions)	Three Months Ended September 30, **2015**	2014	Percentage Change	Nine Months Ended September 30, **2015**	2014	Percentag Chang
Underwriting results:						
Net premiums written	**$ 274**	$ 271	1%	**$ 809**	$ 751	
Increase in unearned premiums	**(42)**	(44)	5	**(121)**	(85)	(42
Net premiums earned	**232**	227	2	**688**	666	
Losses and loss adjustment expenses incurred	**42**	63	(33)	**144**	174	(17
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**8**	5	60	**22**	16	3
Other acquisition expenses	**12**	13	(8)	**40**	38	
Total acquisition expenses	**20**	18	11	**62**	54	1
General operating expenses	**42**	46	(9)	**121**	120	
Underwriting income	**128**	100	28	**361**	318	1
Net investment income	**34**	35	(3)	**103**	103	
Pre-tax operating income	**162**	135	20	**464**	421	1
Key metrics:						
Prior year loss reserve development (favorable)/ unfavorable	**$ (18)**	$ (12)	50%	**$ (35)**	$ (74)	(53
Domestic first-lien:						
New insurance written	**$14,483**	$12,643	15	**$40,215**	$31,305	2
Combined ratio	**46.0**	55.7		**49.2**	52.5	
Risk in force				**$46,559**	$40,782	1
60+ day delinquency ratio on primary loans[(a)]				**3.5%**	4.6%	
Domestic second-lien:						
Risk in force[(b)]				**$ 415**	$ 470	(12

(a) Based on number of policies.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, which is usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.

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Pre-Tax oPERATING INCOME

(in millions)

domestic first-lien new insurance written ON MORTGAGE LOANS

(in millions)

The following table presents Mortgage Guaranty first-lien results:

(dollars in millions)	Three Months Ended September 30, 2015	2014	Percentage Change	Nine Months Ended September 30, 2015	2014	Percentage Change
Underwriting results:						
Net premiums written	**$ 257**	$ 252	2%	**$ 761**	$ 693	10%
Increase in unearned premiums	**(40)**	(42)	5	**(119)**	(83)	(43)
Net premiums earned	**217**	210	3	**642**	610	5
Losses and loss adjustment expenses incurred	**45**	61	(26)	**148**	172	(14)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**8**	5	60	**22**	14	57
Other acquisition expenses	**12**	13	(8)	**40**	39	3
Total acquisition expenses	**20**	18	11	**62**	53	17

General operating expenses	**35**	38	(8)	**106**	96	10
Underwriting income	**117**	93	26	**326**	289	13
Net investment income	**31**	32	(3)	**94**	93	1
Pre-tax operating income	**148**	125	18	**420**	382	10

Mortgage Guaranty Quarterly Results

Pre-tax operating income increased in the three-month period ended September 30, 2015 compared to the same period in the prior year primarily due to a decline in incurred losses from lower delinquency rates and higher cure rates and an increase in premiums earned as a result of growth in new insurance written.

First-Lien Results

First-lien pre-tax operating income increased in the three-month period ended September 30, 2015, compared to the same period in the prior year reflecting an increase in underwriting income. First-lien net premiums earned in the three-month period ended September 30, 2015, increased by $7 million compared to the same period in the prior year largely from growth in the business. First-lien losses and loss adjustment expenses incurred in the three-month period ended September 30, 2015 decreased by $16 million compared to the same period in the prior year. The combined ratio decreased by 9.7 points to 46.0 points in the three-month period ended September 30, 2015, compared to the same period in the prior year reflecting an improvement in overall underwriting results.

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Acquisition expenses increased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily as a result of sales support activities related to the increase in new insurance written.

General operating expenses decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to $4 million of asset write offs during the same period in the prior year.

Other Business Results

Other business results include second-lien insurance, student loan insurance and non-domestic mortgage insurance operations.

The Other business' pre-tax operating income for the three-month period ended September 30, 2015, was approximately $14 million, compared to $10 million in the same period in the prior year. The increase in pre-tax operating income was primarily due to a decline in losses and loss adjustment expenses and underwriting expenses, partially offset by a decrease in net premiums earned and a decline in net investment income.

Mortgage Guaranty Year-to-Date Results

Pre-tax operating income increased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, due to an increase in first-lien net premiums earned as a result of higher new insurance written, an acceleration of earnings on the cancellations of single premium business for which a return premium is generally not required, a decline in incurred losses from lower delinquency rates and higher cure rates.

First-Lien Results

First-lien pre-tax operating income increased $38 million in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to improved underwriting income as a result of a $32 million increase in first-lien net premiums earned in the nine-month period ended September 30, 2015 compared to the same period in the prior year, largely from growth in the book of business and the acceleration of premiums earned as a result of cancellations of single premium business and a $24 million decrease in losses and loss adjustment expenses, offset in part by a $20 million increase in acquisition and general operating expenses. The combined ratio was 49.2 points in the nine-month period ended September 30, 2015, compared to 52.5 points in the same period in the prior year, reflecting a decrease in the loss ratio, partially offset by an increase in the expense ratio.

Acquisition expenses increased slightly in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily as a result of sales support activities related to the increase in new insurance written.

General operating expenses increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to an increase in servicing costs related to the growth of the in-force business.

Other Business Results

The Other business' pre-tax operating income for the nine-month period ended September 30, 2015 was approximately $43 million compared to $39 million in the same period in the prior year. The increase in pre-tax operating income was primarily due to a decline in general operating expenses and losses and loss adjustment expenses, partially offset by a decline in net premiums earned and a decline in net investment income.

New Insurance Written on Domestic First-Lien Mortgage Loans

In the third quarter of 2015, Mortgage Guaranty's domestic first-lien new insurance written was $14.5 billion compared to $12.6 billion for the same period in the prior year, reflecting the expansion in the mortgage originations market caused by a reduction in mortgage interest rates in the latter part of 2014 and increased purchase volume favorably impacted by a drop in unemployment, improved housing prices, and lower down payment requirements. Domestic first-lien new insurance written increased to $40.2 billion in the nine-month period ended September 30, 2015, compared to $31.3 billion in the same period

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in the prior year, driven by an increase in refinancing, improvements in existing home sales due to lower down payment requirements and new purchase volume.

Delinquency Inventory

The delinquency inventory for domestic first-lien business declined during the nine-month period ended September 30, 2015 as a result of cures and paid claims exceeding the number of newly reported delinquencies. Mortgage Guaranty's first-lien primary delinquency ratio at September 30, 2015 was 3.5 percent compared to 4.6 percent at September 30, 2014. Over the last several years, Mortgage Guaranty has experienced a decline in newly reported defaults and an increase in cure rates.

The following table provides a summary of activity in Mortgage Guaranty's domestic first lien delinquency inventory:

Nine Months Ended September 30,		
(number of policies)	**2015**	2014
Number of delinquencies at the beginning of the year	**38,357**	47,518
Newly reported	**29,450**	35,474
Cures	**(27,946)**	(33,260)
Claims paid	**(6,728)**	(8,783)
Other	**(1,225)**	(1,727)
Number of delinquencies at the end of the period	**31,908**	39,222

Mortgage Guaranty Quarterly and Year-to-Date Underwriting Ratios

The following tables present the Mortgage Guaranty combined ratios based on GAAP data:

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2015	2014	(Decrease)	**2015**	2014	(Decrease)
Loss ratio	**18.1**	27.8	(9.7)	**20.9**	26.1	(5.2)
Acquisition ratio	**8.6**	7.9	0.7	**9.0**	8.1	0.9
General operating expense ratio	**18.1**	20.3	(2.2)	**17.6**	18.0	(0.4)
Expense ratio	**26.7**	28.2	(1.5)	**26.6**	26.1	0.5
Combined ratio	**44.8**	56.0	(11.2)	**47.5**	52.2	(4.7)

The combined ratio decreased by 11.2 points and 4.7 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year. The decrease in the ratio in the three- and nine-month periods ended September 30, 2015 was driven primarily by a reduction in the loss ratio due to a decline in incurred losses driven by lower delinquencies and higher cure rates.

The acquisition ratio increased by 0.7 points and 0.9 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year, primarily due to the increases in expenses related to sales activities supporting new insurance written.

The general operating expense ratio decreased by 2.2 points and 0.4 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year, primarily due to an increase in earned premiums.

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Institutional Markets Results

The following table presents Institutional Markets results:

(in millions)	Three Months Ended September 30, 2015	2014	Percentage Change	Nine Months Ended September 30, 2015	2014	Percentage Change
Revenues:						
Premiums	**$ 115**	$ 108	6%	**$ 854**	$ 368	132%
Policy fees	**49**	49	-	**148**	138	7
Net investment income	**414**	469	(12)	**1,372**	1,522	(10)
Benefits and expenses:						
Policyholder benefits and losses incurred	**363**	345	5	**1,603**	1,094	47
Interest credited to policyholder account balances	**102**	105	(3)	**306**	308	(1)
Amortization of deferred policy acquisition costs	**1**	-	NM	**2**	2	-
Other acquisition expenses	**9**	8	13	**24**	25	(4)
General operating expenses	**19**	15	27	**57**	47	21
Pre-tax operating income	**$ 84**	$ 153	(45)	**$ 382**	$ 552	(31)

INSTITUTIONAL MARKETS pre-tax OPERATING INCOME *(in millions)*

Institutional Markets Quarterly Results

Pre-tax operating income in the three-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to a decrease in net investment income and an increase in policyholder benefits resulting from a large claim in the current year period.

Net investment income in the three-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to losses on alternative investments from negative performance in hedge funds. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

General operating expenses in the three-month period ended September 30, 2015 increased compared to the same period in the prior year, primarily due to higher interest expense.

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Institutional Markets Year-to-Date Results

Pre-tax operating income in the nine-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to a decrease in net investment income. Fee income increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, driven by growth in reserves and assets under management, primarily from continued development of the stable value wrap business. The notional amount of stable value wrap assets under management at September 30, 2015 grew by $4.8 billion or 17 percent from September 30, 2014. The increases in premiums and in benefit expense in the nine months ended September 30, 2015, compared to the same period in the prior year, were primarily due to the premium received and establishment of the future policy benefit reserve for a large terminal funding annuity issued during the first half of 2015.

Net investment income in the nine-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to lower income on alternative investments and lower yield enhancements from bond call and tender income. See MD&A – Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Institutional Markets business.

General operating expenses in the nine-month period ended September 30, 2015 increased compared to the same period in the prior year, primarily due to higher state guaranty fund assessment expenses, technology investments and higher interest expense.

Institutional Markets Premiums and Deposits

For Institutional Markets, premiums represent amounts received on traditional life insurance policies and life-contingent payout annuities or structured settlements. Premiums and deposits is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance and investment-type annuity contracts, including GICs and stable value wrap funding agreements.

The following table presents a reconciliation of Institutional Markets premiums and deposits to GAAP premiums:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Premiums and deposits	**$ 159**	$ 2,840	**$ 985**	$ 3,182
Deposits	**(33)**	(2,725)	**(104)**	(2,797)
Other	**(11)**	(7)	**(27)**	(17)
Premiums	**$ 115**	$ 108	**$ 854**	$ 368

Premiums and deposits for the three- and nine-month periods ended September 30, 2015 decreased compared to the same periods in the prior year, primarily due to a $2.5 billion deposit to the separate accounts of one of the Life Insurance Companies for a stable value wrap funding agreement that was reflected in the prior year periods. Excluding the $2.5 billion deposit in the prior year period, premiums and deposits for the nine-month period ended September 30, 2015 increased compared to the same period in the prior year, primarily due to higher premiums, which reflected a large single premium for a terminal funding annuity agreement in the first half of 2015.

CONSUMER INSURANCE

Consumer Insurance presents its operating results in three operating segments – Retirement, Life and Personal Insurance.

Retirement provides a broad portfolio of retirement products and services to individual consumers**.** The primary products offered by the Retirement operating segment include individual fixed and variable annuities, retail mutual funds and advisory services. Retirement products are distributed through affiliated channels that include The Variable Annuity Life Insurance

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Company (VALIC) career financial advisors and licensed financial advisors in the AIG Advisor Group and through non-affiliated channels, which include banks, wirehouses, regional and independent broker-dealers, independent marketing organizations and independent insurance agents.

Life provides life insurance products to individual consumers as well as group products distributed through employers. The primary products offered by the Life operating segment include term life, whole life and universal life insurance. International products include term and whole life insurance, savings products, supplemental health, cancer and critical illness insurance. Life products are distributed in the U.S. through affiliated channels that include career agents and financial advisors in the AIG Financial Network and direct marketing. Non-affiliated channels in the U.S. include independent marketing organizations, independent agents and benefit brokers. International life products are sold through non-affiliated independent agents and direct marketing.

Personal Insurance provides accident and health and personal lines insurance products to individuals, organizations and families. The products offered by the Personal Insurance operating segment include voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations, including a broad range of travel insurance products and services for leisure and business travelers, personal automobile and homeowners insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protections, as well as various high-net-worth insurance products. Personal Insurance products and services are distributed through various channels, including independent agents, brokers, affinity partners, airlines and travel agents, as well as direct marketing.

See Part I, Item 1. Business in AIG's 2014 Annual Report for further discussion of our products and geographic regions where we distribute our products.

Consumer Insurance Results

The following table presents Consumer Insurance results:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Revenues:						
Premiums	**$3,531**	$3,781	(7)%	**$10,636**	$11,269	(6)%
Policy fees	**653**	635	3	**1,919**	1,829	5
Net investment income	**1,944**	2,283	(15)	**6,351**	6,883	(8)
Other income	**524**	511	3	**1,575**	1,487	6

Benefits and expenses:						
Policyholder benefits and losses incurred	**2,741**	2,763	(1)	**7,981**	8,166	(2)
Interest credited to policyholder account balances	**789**	776	2	**2,459**	2,488	(1)
Amortization of deferred policy acquisition costs	**694**	597	16	**2,146**	2,033	6
General operating and other expenses*	**1,771**	1,810	(2)	**5,270**	5,230	1
Pre-tax operating income	**$ 657**	$1,264	(48)%	**$ 2,625**	$ 3,551	(26)%

* Includes general operating expenses, non deferrable commissions, other acquisition expenses, advisory fee expenses and other expenses.

Consumer Insurance Results by Operating Segment

The following section provides a comparative discussion of Consumer Insurance Results of Operations for the three- and nine-month periods ended September 30, 2015 and 2014 by operating segment.

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Retirement Results

The following table presents Retirement results:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Revenues:						
Premiums	**$ 37**	$ 67	(45)%	**$ 127**	$ 221	(43)%
Policy fees	**261**	265	(2)	**802**	751	7
Net investment income	**1,396**	1,629	(14)	**4,584**	4,908	(7)
Advisory fee and other income	**509**	511	-	**1,543**	1,487	4
Benefits and expenses:						
Policyholder benefits and losses incurred	**198**	137	45	**406**	410	(1)
Interest credited to policyholder account balances	**665**	648	3	**2,089**	2,108	(1)
Amortization of deferred policy acquisition costs	**32**	(46)	NM	**332**	197	69
Non deferrable insurance commissions	**72**	68	6	**210**	192	9
Advisory fee expenses	**339**	338	-	**1,012**	986	3
General operating expenses	**262**	233	12	**768**	701	10
Pre-tax operating income	**$ 635**	$ 1,094	(42)%	**$ 2,239**	$ 2,773	(19)%

RETIREMENT pre-tax OPERATING INCOME *(in millions)*

Retirement Quarterly Results

Pre-tax operating income in the three-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to lower net investment income, a lower net positive adjustment from the review and update of actuarial assumptions and higher general operating expenses. The update of actuarial assumptions resulted in a net positive adjustment to Retirement pre-tax operating earnings of $140 million in the three-month period ended September 30, 2015, compared to a net positive adjustment of $256 million in the three-month period ended September 30, 2014.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of $92 million in the three-month period ended September 30, 2015, which reflected refinements to investment spread assumptions, lower terminations than previously assumed and decreases to expense assumptions. The three-month period ended September 30,

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2014, included a net positive adjustment of $196 million in Fixed Annuities, primarily due to better spreads than previously assumed.

In Retirement Income Solutions, there were offsetting updates to assumed investment fees, modeled expenses, and terminations, resulting in no net adjustment to pre-tax operating earnings in the three-month period ended September 30, 2015, compared to a $14 million net positive adjustment in the three-month period ended September 30, 2014, primarily due to the update of mortality assumptions.

In Group Retirement, a net positive adjustment from the update of estimated gross profit assumptions of $48 million in the three-month period ended September 30, 2015 was primarily due to revisions to mortality and surrender assumptions, partially offset by decreased spread assumptions. In the three-month period ended September 30, 2014, a net positive adjustment of $46 million in Group Retirement was primarily due to more favorable assumptions for investment spreads and surrenders than previously assumed.

See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for adjustments by product line and financial statement line item, and discussion of adjustments related to the update of assumptions for the valuation of variable annuity GMWB features in the Retirement Income Solutions and Group Retirement product lines, which are accounted for as embedded derivatives and measured at fair value, with the change in fair value recorded in net realized capital gains (losses) and excluded from pre-tax operating income.

Net investment income for the three-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to losses on alternative investments from negative performance in hedge funds, lower income from yield enhancements and lower base net investment income. These declines were partially offset by higher gains in private equity fund partnerships and affordable housing partnerships. Yield enhancements in the same period in the prior year reflected higher bond call and tender income and higher income on investments for which the fair value option was elected, including the investment in PICC Group then held by the Life Insurance Companies.

Base net investment income for the three-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in the three-month period ended September 30, 2015 declined compared to the same period in the prior year, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio in the sustained low interest rate environment. While average interest crediting rates were down slightly due to active rate management, the decline in base yields compressed base spreads in Fixed Annuities. See Spread Management below for additional discussion.

General operating expenses increased in the three-month period ended September 30, 2015 compared to the same period in the prior year, due in part to technology investments and higher expenses associated with continued strong sales in the Retirement Income Solutions product line.

Retirement Year-to-Date Results

Pre-tax operating income in the nine-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to lower net investment income, a lower net positive adjustment to reflect the update of actuarial assumptions and higher general operating expenses, partially offset by growth in fee income. In addition, DAC amortization in Retirement Income Solutions increased in the nine-month period ended September 30, 2015 due to growth in the business and lower equity market returns compared to the same period in the prior year. Base net investment income decreased in the nine-month period ended September 30, 2015, which compressed base spreads, but this decrease was partially offset by higher policy fees and advisory fees due to growth in variable annuity separate account assets under management, principally driven by positive net flows.

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Net investment income for the nine-month period ended September 30, 2015 decreased compared to the same period in the prior year, primarily due to lower income on alternative investments and lower base net investment income.

Base net investment income for the nine-month period ended September 30, 2015 decreased slightly compared to the same period in the prior year, primarily due to the effect of lower base yields from reinvestment at rates below the weighted average yield of the overall portfolio. This overall decrease in base net investment income compared to the same period in the prior year was partially offset in the nine-month period ended September 30, 2015 by additional accretion on a security held in Group Retirement. See Investments – Life Insurance Companies for additional information on the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Retirement business.

Overall, Retirement fixed maturity portfolio yields in the nine-month period ended September 30, 2015 declined compared to the same period in the prior year, primarily as a result of investment purchases and investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio in the sustained low interest rate environment. While average interest crediting rates were down slightly due to active rate management, the decline in base yield resulted in spread compression in Fixed Annuities base spreads compared to the same period in the prior year. Group Retirement base spread was flat compared to the same period in the prior year, primarily due to additional accretion income in the nine-month period ended September 30, 2015, which offset the decline in base yield. See Spread Management below for additional discussion.

General operating expenses increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, due in part to technology investments and higher expenses associated with continued strong sales in the Retirement Income Solutions product line.

Spread Management

The contractual provisions for renewal of crediting rates and guaranteed minimum crediting rates included in products may reduce spreads in a sustained low interest rate environment and thus reduce future profitability. Although this interest rate risk is partially mitigated through the Life Insurance Companies' asset liability management process, product design elements and crediting rate strategies, a sustained low interest rate environment may negatively affect future profitability.

Disciplined pricing on new business and active crediting rate management are used in the Fixed Annuities and Group Retirement product lines to partially offset the impact of a continued decline in base yields resulting from investment of available cash flows in the low interest rate environment.

Disciplined pricing on new business is used to pursue new sales of annuity products at targeted net investment spreads in the current rate environment. Retirement has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Retirement cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products that had higher minimum rate guarantees have been re-filed with lower crediting rates as permitted under state insurance laws for new sales. As a result, new sales of fixed annuity products generally have minimum interest rate guarantees of one percent.

Renewal crediting rate management is done under contractual provisions in annuity products that were designed to allow crediting rates to be reset at pre-established intervals in accordance with state and federal laws and subject to minimum crediting rate guarantees. Retirement will continue to adjust crediting rates on in-force business to mitigate the pressure on spreads from declining base yields. In addition to deferred annuity products, certain traditional long-duration products for which Retirement does not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential loss recognition reserve increases in a sustained low interest rate environment.

As of September 30, 2015, Retirement's fixed annuity reserves, which include fixed options offered within variable annuities sold in the Group Retirement and Retirement Income Solutions product lines as well as reserves of the Fixed Annuities product line, had minimum guaranteed interest rates ranging from 1.0 percent to 5.5 percent, with the higher rates representing guarantees on older in-force products. As indicated in the table below, approximately 73 percent of annuity account values were at their minimum crediting rates as of September 30, 2015, compared to 71 percent at December 31, 2014. As a result of

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disciplined pricing on new business and the run-off of older business with higher minimum crediting rates, fixed annuity account values having contractual minimum guaranteed rates above 1 percent decreased to 75 percent of total fixed annuity reserves at September 30, 2015 from 79 percent at December 31, 2014.

The following table presents fixed annuity account values by contractual minimum guaranteed interest rate and current crediting rates:

		Current Crediting Rates		
September 30, 2015 Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Fixed annuities *				
1%	$ 5,675	$ 6,494	$ 11,256	$ 23,425
> 1% - 2%	12,133	2,611	3,180	17,924
> 2% - 3%	30,673	554	1,661	32,888
> 3% - 4%	12,414	48	8	12,470
> 4% - 5%	7,713	-	4	7,717
> 5% - 5.5%	225	-	5	230
Total	$ 68,833	$ 9,707	$ 16,114	$ 94,654
Percentage of total	73%	10%	17%	100%

* Fixed annuities shown include fixed options within variable annuities sold in Group Retirement and Retirement Income Solutions product lines.

Retirement Premiums and Deposits, Surrenders and Net Flows

Premiums

For Retirement, premiums primarily represent amounts received on life-contingent payout annuities. Premiums and deposits is a non GAAP financial measure that includes, in addition to direct and assumed premiums, deposits received on investment-type annuity contracts and mutual funds.

The following table presents a reconciliation of Retirement premiums and deposits to GAAP premiums:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014

Premiums and deposits*	**$**	**6,625**	$	5,863	**$**	**18,204**	$	18,033
Deposits		**(6,542)**		(5,822)		**(18,079)**		(17,951)
Other		**(46)**		26		**2**		139
Premiums	**$**	**37**	$	67	**$**	**127**	$	221

* Excludes activity related to closed blocks of fixed and variable annuities.

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Premiums decreased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year, primarily due to lower immediate annuity premiums in the Fixed Annuities product line.

Premiums and Deposits and Net Flows

The following table presents Retirement premiums and deposits and net flows by product line:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Fixed Annuities	**$ 1,121**	$ 692	62%	**$ 2,455**	$ 2,713	(10)%
Retirement Income Solutions	**2,758**	2,887	(4)	**8,151**	7,630	7
Retail Mutual Funds	**843**	598	41	**2,622**	2,656	(1)
Group Retirement	**1,903**	1,686	13	**4,976**	5,034	(1)
Total Retirement premiums and deposits*	**$ 6,625**	$ 5,863	13%	**$ 18,204**	$ 18,033	1%

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Net flows				
Fixed Annuities	**$ (337)**	$ (733)	**$ (2,023)**	$ (1,572)
Retirement Income Solutions	**1,824**	1,952	**5,271**	4,826
Retail Mutual Funds	**192**	(315)	**676**	78
Group Retirement	**(664)**	(1,061)	**(1,695)**	(1,534)
Total Retirement net flows*	**$ 1,015**	$ (157)	**$ 2,229**	$ 1,798

* Excludes activity related to closed blocks of fixed and variable annuities, which had reserves of approximately $5.0 billion and $5.4 billion at September 30, 2015 and 2014, respectively.

RETIREMENT PREMIUMS AND DEPOSITS by Product Line *(in millions)*

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Premiums and deposits for Retirement increased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to higher sales in Fixed Annuities, Group Retirement and Retail Mutual Funds product lines. Premiums and deposits increased for the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to growth in Retirement Income Solutions, partially offset by lower sales in Fixed Annuities.

Net flows for annuity products included in the Fixed Annuities, Retirement Income Solutions and Group Retirement product lines represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows from mutual funds, which are included in both the Retail Mutual Funds and Group Retirement product lines, represent deposits less withdrawals.

Total net flows for Retirement in the three-month period ended September 30, 2015 improved compared to the same period in the prior year, primarily due to higher premiums and deposits in Fixed Annuities, Group Retirement and Retail Mutual Funds. Surrender and withdrawal activity in Group Retirement and Retail Mutual Funds improved in the three-month period ended September 30, 2015, compared to higher levels for the prior year period.

In the nine-month period ended September 30, 2015, total net flows for Retirement increased compared to the same period in the prior year, primarily due to continued growth in Retirement Income Solutions and a significant reduction in the level of withdrawals in Retail Mutual Fund, partially offset by lower net flows from Fixed Annuities and Group Retirement.

Premiums and Deposits and Net Flows by Product Line

A discussion of the significant variances in premiums and deposits and net flows for each product line follows:

Fixed Annuities deposits and net flows increased in the three-month period ended September 30, 2015 compared to the same period in the prior year, due to new product offerings and an increase in fixed deferred annuities bank channel sales driven by higher rates as a result of widening credit spreads. In the nine-month period ended September 30, 2015, deposits decreased compared to the same period in the prior year, and net flows continued to be negative, primarily due to lower sales in the sustained low interest rate environment.

Retirement Income Solutions premiums and deposits and net flows decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, due to lower variable annuity sales partially offset by growth in index annuities. In the nine-month period ended September 30, 2015, premiums and deposits and net flows increased compared to the same period in the prior year, reflecting an increase in index annuity sales. The improvement in surrender rates (see Surrender Rates below) for the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year, was primarily due to the significant growth in account value driven by the high volume of sales, which has increased the proportion of business that is within the surrender charge period.

Retail Mutual Fund net flows increased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to improvement in the levels of deposits and withdrawals. Retail Mutual Fund net flows increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, due to a reduction in the level of withdrawals. The increase in net flows in both periods compared to the same periods in the prior year was primarily driven by activity within the Focused Dividend Strategy Fund.

Group Retirement net flows in the three-month period ended September 30, 2015 improved compared to the same period in the prior year, due to higher premiums and deposits and improved surrender activity compared to the three-month period ended September 30, 2014, which included a large group surrender of approximately $700 million. In the nine-month period ended September 30, 2015, net flows decreased compared to the same period in the prior year, due to both a decrease in premiums and deposits and an increase in surrender activity. The increase in the surrender rate compared to the same period in the prior year was due in part to large group surrenders of approximately $1.1 billion in the nine-month period ended September 30, 2015. The large group market has been impacted by the consolidation of healthcare providers and other employers in our target markets.

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Surrender Rates

The following table presents reserves for annuity product lines by surrender charge category:

	September 30, 2015			December 31, 2014		
(in millions)	Group Retirement Products[a]	Fixed Annuities	Retirement Income Solutions	Group Retirement Products[a]	Fixed Annuities	Retirement Income Solutions
No surrender charge[b]	**$ 59,860**	**$ 35,000**	**$ 1,027**	$ 61,751	$ 34,396	$ 1,871
0% - 2%	**1,539**	**1,852**	**16,478**	1,648	2,736	17,070
Greater than 2% - 4%	**1,159**	**1,842**	**4,014**	1,657	2,842	4,254
Greater than 4%	**5,635**	**12,665**	**31,123**	5,793	12,754	26,165
Non-surrenderable	**688**	**3,610**	**172**	770	3,464	151
Total reserves	**$ 68,881**	**$ 54,969**	**$ 52,814**	$ 71,619	$ 56,192	$ 49,511

(a) Excludes mutual fund assets under management of $14.0 billion and $14.6 billion at September 30, 2015 and December 31, 2014, respectively.

(b) Group Retirement Products in this category include reserves of approximately $6.2 billion at both September 30, 2015 and December 31, 2014, that are subject to 20 percent annual withdrawal limitations.

The following table presents annualized surrender rates for deferred annuities by product line:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	**2015**	2014
Surrenders as a percentage of average account value				
Fixed Annuities	**6.5 %**	6.3 %	**6.8 %**	6.6 %
Retirement Income Solutions	**6.0**	6.8	**6.2**	7.3
Group Retirement	**11.4**	12.0	**9.9**	9.5

Life Results

The following table presents Life results:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Revenues:						
Premiums	**$ 675**	$ 655	3%	**$ 2,085**	$ 2,004	4%
Policy fees	**392**	370	6	**1,117**	1,078	4
Net investment income	**496**	550	(10)	**1,589**	1,663	(4)

Other income		**15**		-	NM		**32**		-	NM
Benefits and expenses:										
Policyholder benefits and losses incurred		**1,037**		1,005	3		**2,944**		2,766	6
Interest credited to policyholder account balances		**124**		128	(3)		**370**		380	(3)
Amortization of deferred policy acquisition costs		**158**		97	63		**333**		258	29
Non deferrable insurance commissions		**51**		62	(18)		**167**		185	(10)
General operating expenses		**248**		233	6		**729**		656	11
Pre-tax operating income (loss)	**$**	**(40)**	$	50	NM	**$**	**280**	$	500	(44)

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Life pre-tax OPERATING INCOME *(in millions)*

Life Quarterly Results

Pre-tax operating income decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to lower net investment income, mortality experience that was within pricing expectations but less favorable than the prior year period, and a higher net negative adjustment to reflect the review and update of actuarial assumptions. Other income in the three-month period ended September 30, 2015, was primarily related to commission and profit sharing revenues received by Laya Healthcare for the distribution of insurance products.

The net negative adjustment of $157 million related to an update of actuarial assumptions in the three-month period ended September 30, 2015 was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees, which represent approximately eight percent of total U.S. life reserves. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected mortality, as well as loss recognition expense of $39 million for certain discontinued long-term care products primarily due to lower future premium assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves based on updated experience data.

A net negative adjustment of $135 million in the three-month period ended September 30, 2014 also included additions to reserves for universal life with secondary guarantees, primarily due to lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions. The net negative adjustment in the three-month period ended September 30, 2014 also included loss recognition expense of $87 million for certain long-term care business, primarily as a result of lower future premium increase assumptions and, to a lesser extent, lower yield assumptions.

See Insurance Reserves - Life Insurance Companies DAC and Reserves – Update of Actuarial Assumptions for amounts by product line and financial statement line item and additional discussion.

Net investment income decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to losses on alternative investments from negative performance in hedge funds, lower income from yield enhancements and lower base net investment income. Yield enhancements in the prior year period reflected higher bond call and tender income and higher gains on securities for which the fair value option was elected, including the investment in PICC Group then held by the Life Insurance Companies. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

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General operating expenses increased in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to increases in expenses related to expansion of the international Life business.

Life Year-to-Date Results

Pre-tax operating income decreased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to lower net investment income, mortality experience that was within pricing expectations but less favorable than the prior year period, and a higher net negative adjustment to reflect updated actuarial assumptions. Other income in the nine-month period ended September 30, 2015, was primarily related to commission and profit sharing revenues received by Laya Healthcare for the distribution of insurance products.

Net investment income for the nine-month period ended September 30, 2015 decreased compared to the same period in the prior year primarily due to lower income on alternative investments and a decrease in base net investment income compared to the prior year period, due in part to participation income received on a commercial mortgage loan in the 2014 period. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

General operating expenses increased in the nine-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to increases in expenses related to expansion of the international Life business.

Spread Management

Disciplined pricing on new business is used to pursue new sales of life products at targeted net investment spreads in the current interest rate environment. Life has an active product management process to ensure that new business offerings appropriately reflect the current interest rate environment. To the extent that Life cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, where appropriate, existing products with higher minimum rate guarantees have been re-filed with lower crediting rates as permitted under state insurance laws for new sales. Universal life insurance interest rate guarantees are generally 2 to 3 percent on new non-indexed products and zero to 2 percent on new indexed products, and are designed to meet targeted net investment spreads.

In-force Management. Crediting rates for in-force policies are adjusted in accordance with contractual provisions that were designed to allow crediting rates to be reset subject to minimum crediting rate guarantees.

The following table presents universal life account values by contractual minimum guaranteed interest rate and current crediting rates:

September 30, 2015		Current Crediting Rates		
Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Universal life insurance				
1%	$ -	$ -	$ 7	$ 7
> 1% - 2%	32	152	210	394
> 2% - 3%	562	277	1,454	2,293
> 3% - 4%	2,063	501	1,098	3,662
> 4% - 5%	3,985	195	-	4,180
> 5% - 5.5%	330	-	-	330
Total	$ 6,972	$ 1,125	$ 2,769	$ 10,866
Percentage of total	64%	10%	26%	100%

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Life Premiums and Deposits

Premiums for Life represent amounts received on traditional life insurance policies and group benefit policies. Premiums and deposits for Life is a non GAAP financial measure that includes direct and assumed premiums as well as deposits received on universal life insurance.

The following table presents a reconciliation of Life premiums and deposits to GAAP premiums:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Premiums and deposits	**$ 1,223**	$ 1,163	**$ 3,695**	$ 3,557
Deposits	**(369)**	(366)	**(1,127)**	(1,129)
Other	**(179)**	(142)	**(483)**	(424)
Premiums	**$ 675**	$ 655	**$ 2,085**	$ 2,004

Excluding the effect of foreign exchange, Life premiums and deposits increased 8 percent and 7 percent for the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year, principally driven by growth in Japan and the acquisition of AIG Life Limited in the U.K.

Personal Insurance Results

The following table presents Personal Insurance results:

	Three Months Ended September 30,		Percentage	Nine Months Ended September 30,		Percentage
(in millions)	**2015**	2014	Change	**2015**	2014	Change
Underwriting results:						
Net premiums written	**$3,016**	$3,241	(7)%	**$8,861**	$9,546	(7)%
Increase in unearned premiums	**(197)**	(182)	(8)	**(437)**	(502)	13
Net premiums earned	**2,819**	3,059	(8)	**8,424**	9,044	(7)
Losses and loss adjustment expenses incurred	**1,506**	1,621	(7)	**4,631**	4,990	(7)
Acquisition expenses:						
Amortization of deferred policy acquisition costs	**504**	546	(8)	**1,481**	1,578	(6)
Other acquisition expenses	**296**	269	10	**868**	840	3
Total acquisition expenses	**800**	815	(2)	**2,349**	2,418	(3)
General operating expenses	**503**	607	(17)	**1,516**	1,670	(9)

Underwriting income (loss)	**10**	16	(38)	**(72)**	(34)	(112)
Net investment income	**52**	104	(50)	**178**	312	(43)
Pre-tax operating income	**$ 62**	$ 120	(48)%	**$ 106**	$ 278	(62)%

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NET PREMIUMS WRITTEN *(in millions)*		Pre-Tax oPERATING INCOME (LOSS) *(in millions)*

Personal Insurance Quarterly Results

Pre tax operating income decreased in the three-month period ended September 30, 2015 compared to the same period in the prior year, due to a decrease in net investment income. Catastrophe losses were $58 million in the three-month period ended September 30, 2015, compared to $22 million in the same period in the prior year. Net favorable prior year loss reserve development was $46 million in the three-month period ended September 30, 2015, compared to $12 million in the same period in the prior year.

Acquisition expenses decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year, due to the strengthening of the U.S. dollar against the Japanese yen, British pound and euro. Excluding the effect of foreign exchange, acquisition expenses increased due to higher acquisition costs in the automobile business and higher profit share expenses related to warranty service programs, partially offset by a decrease in non-deferred direct marketing expenses. The non-deferred direct marketing expenses, excluding commissions, for the three-month period ended September 30, 2015, were approximately $70 million, and, excluding the impact of foreign exchange, decreased by approximately $31 million from the same period in the prior year.

General operating expenses decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily reflecting the timing of investment in strategic initiatives together with an ongoing focus on cost efficiency.

Net investment income decreased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily driven by lower interest income and negative performance of alternative investments in hedge funds. The lower interest income was due to the continued impact of low interest rates resulting in yields on new purchases that were lower than the weighted average yield of the overall portfolio the strengthening of the U.S. dollar against most major foreign currencies and lower allocation of net investment income.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

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Personal Insurance Year-to-Date Results

Pre tax operating income decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to a decrease in net investment income and underwriting results. Catastrophe losses were $135 million in the nine-month period ended September 30, 2015, compared to $118 million in the same period in the prior year. In the nine-month period ended September 30, 2015, net favorable prior year loss reserve development was $59 million, compared to $42 million in the same period in the prior year.

Acquisition expenses decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year. Excluding the effect of foreign exchange, acquisition expenses increased due to higher acquisition costs, primarily in automobile and property businesses, and higher profit share expenses related to warranty service programs, partially offset by a decrease in non-deferred direct marketing expenses. The non-deferred direct marketing expenses, excluding commissions, for the nine-month period ended September 30, 2015, were approximately $219 million, and, excluding the impact of foreign exchange, decreased by approximately $64 million from the same period in the prior year.

General operating expenses decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to the effect of foreign exchange.

Net investment income decreased in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to the continued impact of low interest rates resulting in yields on new purchases that were lower than the weighted average yield of the overall portfolio, the strengthening of the U.S. dollar against most major foreign currencies, and lower allocation of net investment income.

See MD&A — Investments for additional information on the Non-Life Insurance Companies invested assets, investment strategy, and asset-liability management process.

Personal Insurance Net Premiums Written

The following table presents Personal Insurance net premiums written by major line of business:

(in millions)	Three Months Ended September 30, 2015	2014	Percentage Change in U.S. Dollars	Percentage Change in Original Currency	Nine Months Ended September 30, 2015	2014	Percentage Change in U.S. Dollars	Percentage Change in Original Currency
Accident & Health	**$ 1,320**	$ 1,426	(7)%	3%	**$ 3,906**	$ 4,248	(8)%	1%
Personal Lines	**1,696**	1,815	(7)	4	**4,955**	5,298	(6)	3
Total Personal Insurance net								

premiums written	**$ 3,016**	$ 3,241	(7)%	4%	**$ 8,861**	$ 9,546	(7)%	2%

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Personal Insurance net premiums written by line of business

(in millions)

Personal Insurance Quarterly and Year-to-Date Net Premiums Written

Personal Insurance net premiums written decreased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year due to the strengthening of the U.S. dollar against the Japanese yen, British pound and euro. Excluding the effect of foreign exchange, net premiums written increased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year, as the business continued to grow through multiple product and distribution channels.

A&H net premiums written, excluding the effect of foreign exchange, increased in the three- and nine-month periods ended September 30, 2015 compared to the same periods in the prior year primarily, due to production increases in individual travel business in Latin America, group personal accident and the supplemental health business in Japan and individual personal accident outside of Japan, partially offset by the decrease in personal accident and travel businesses in the U.S. and EMEA, due to continued underwriting discipline.

Personal Lines net premiums written, excluding the effect of foreign exchange, increased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year. These increases were primarily due to increased production in personal property business in the Americas and Asia Pacific and in the automobile business in the Americas and EMEA, partially offset by decreased production of warranty service programs, due to underwriting actions taken in the prior year. The increase in the U.S. personal property business in the three-month period ended September 30, 2015 was attributable to new business sales and improved retention in the private client group, whereas in Japan the increase was due to new business sales as a result of the recent increase in new housing starts. In addition, the increase in U.S. personal property business in the nine-month period September 30, 2015 reflected changes to optimize our reinsurance structure to retain more favorable risks, while continuing to manage aggregate exposure.

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Personal Insurance Net Premiums Written by Region

The following table presents Personal Insurance net premiums written by region:

(in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Percentage Change in U.S. dollars	Percentage Change in Original Currency	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014	Percentage Change in U.S. dollars	Origi
Americas	**$1,047**	$1,004	4%	6%	**$2,906**	$2,919	-%	
Asia Pacific	**1,523**	1,749	(13)	1	**4,492**	5,011	(10)	
EMEA	**446**	488	(9)	6	**1,463**	1,616	(9)	
Total net premiums written	**$3,016**	$3,241	(7)%	4%	**$8,861**	$9,546	(7)%	

Personal insurance NET PREMIUMS WRITTEN by Region

(in millions)

Americas net premiums written increased in the three-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to growth in personal property and automobile businesses, partially offset by a decrease in net premiums written in warranty service programs and group accident business in the U.S. Net premiums written in the nine-month period ended September 30, 2015 remained essentially unchanged compared to the prior year quarter. Excluding the effect of foreign exchange, net premiums written increased in the nine-month period ended September 30, 2015, due to growth in personal property and automobile businesses, offset by decreases in warranty service programs, individual travel and group accident businesses in the U.S. The growth in personal property business is primarily driven by new business sales and improved retention in the U.S. private client group, as well as the changes in the reinsurance structure discussed above.

Asia Pacific net premiums written decreased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year. Excluding the effect of foreign exchange, net premiums written increased in the three-month period ended September 30, 2015, primarily due to increased production in personal property, individual personal accident and supplemental health businesses, partially offset by decreases in automobile and warranty service programs. Excluding the effect of foreign exchange, net premiums written increased in the nine-month period ended September 30, 2015, across almost all lines of business, primarily due to businesses with increased production, as discussed above.

EMEA net premiums written decreased in the three- and nine-month periods ended September 30, 2015, compared to the same periods in the prior year. Excluding the effect of foreign exchange, net premiums written increased, particularly in automobile due to new business and in warranty service programs, partially offset by decreases in group personal accident and travel business due to continued underwriting discipline.

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Personal Insurance Underwriting Ratios

The following tables present the Personal Insurance combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

	Three Months Ended September 30,		Increase	Nine Months Ended September 30,		Increase
	2015	2014	(Decrease)	**2015**	2014	(Decrease)
Loss ratio	**53.4**	53.0	0.4	**55.0**	55.2	(0.2)
Catastrophe losses and reinstatement premiums	**(2.0)**	(0.7)	(1.3)	**(1.6)**	(1.3)	(0.3)
Prior year development net of premium adjustments	**1.6**	0.4	1.2	**0.7**	0.4	0.3
Accident year loss ratio, as adjusted	**53.0**	52.7	0.3	**54.1**	54.3	(0.2)
Acquisition ratio	**28.4**	26.6	1.8	**27.9**	26.7	1.2
General operating expense ratio	**17.8**	19.8	(2.0)	**18.0**	18.5	(0.5)
Expense ratio	**46.2**	46.4	(0.2)	**45.9**	45.2	0.7
Combined ratio	**99.6**	99.4	0.2	**100.9**	100.4	0.5
Catastrophe losses and reinstatement premiums	**(2.0)**	(0.7)	(1.3)	**(1.6)**	(1.3)	(0.3)
Prior year development net of premium adjustments	**1.6**	0.4	1.2	**0.7**	0.4	0.3
Accident year combined ratio, as adjusted	**99.2**	99.1	0.1	**100.0**	99.5	0.5

Personal Insurance ratios **Three Months Ended September 30,**	**Nine Months Ended September 30,**

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The following tables present Personal Insurance accident year catastrophe and severe losses by region and the number of events:

Catastrophes [(a)]

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Three Months Ended September 30, 2015									
Windstorms and hailstorms	**2**	**$**	**4**	**$**	**33**	**$**	**-**	**$**	**37**
Wildfire	**1**		**1**		**-**		**-**		**1**
Tropical cyclone	**1**		**-**		**20**		**-**		**20**
Total catastrophe-related charges	**4**	**$**	**5**	**$**	**53**	**$**	**-**	**$**	**58**
Three Months Ended September 30, 2014									
Flooding	2	$	2	$	-	$	-	$	2
Windstorms and hailstorms	5		9		10		-		19
Earthquakes	1		1		-		-		1
Total catastrophe-related charges	8	$	12	$	10	$	-	$	22
Nine Months Ended September 30, 2015									
Flooding	**2**	**$**	**4**	**$**	**-**	**$**	**-**	**$**	**4**
Windstorms and hailstorms	**9**		**77**		**33**		**-**		**110**
Wildfire	**1**		**1**		**-**		**-**		**1**
Tropical cyclone	**1**		**-**		**20**		**-**		**20**
Total catastrophe-related charges	**13**	**$**	**82**	**$**	**53**	**$**	**-**	**$**	**135**
Nine Months Ended September 30, 2014									

Flooding	2	$	2	$	-	$	-	$	2
Windstorms and hailstorms	14		60		54		1		115
Earthquakes	1		1		-		-		1
Total catastrophe-related charges	17	$	63	$	54	$	1	$	118

(a) Catastrophes are generally weather or seismic events having a net impact on AIG in excess of $10 million each.

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Severe Losses[(b)]

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Three Months Ended September 30,									
2015	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
2014	-	$	-	$	-	$	-	$	-
Nine Months Ended September 30,									
2015	**1**	**$**	**12**	**$**	**-**	**$**	**-**	**$**	**12**
2014	3	$	37	$	4	$	-	$	41

(b) Severe losses are defined as non-catastrophe individual first party losses and surety losses greater than $10 million, net of related reinsurance and salvage and subrogation.

Personal Insurance Quarterly and Year-to-Date Insurance Ratios

The combined ratio increased by 0.2 points in the three-month period ended September 30, 2015, compared to the same period in the prior year, reflecting an increase in the loss ratio, partially offset by a decrease in the expense ratio. The combined ratio increased by 0.5 points in the nine-month period ended September 30, 2015 compared to the same period in the prior year, reflecting an increase in the expense ratio, partially offset by a decrease in the loss ratio. The accident year combined ratio, as adjusted, increased by 0.1 point and 0.5 points in the three- and the nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year.

The accident year loss ratio, as adjusted, increased by 0.3 points in the three-month period ended September 30, 2015 compared to the same period in the prior year, primarily due to higher losses in automobile and personal property businesses, partially offset by improved performance in warranty service programs. The loss ratio improvement in warranty service programs was offset by an increase in the acquisition ratio due to a related profit sharing arrangement. The accident year loss ratio, as adjusted, decreased by 0.2 points in the nine-month period ended September 30, 2015, compared to the same period in the prior year, due to a decrease in losses in warranty service programs and lower severe losses, partially offset by higher losses in automobile and personal property businesses.

The acquisition ratio increased by 1.8 points and 1.2 points in the three- and nine-month periods ended September 30, 2015, respectively, compared to the same periods in the prior year, primarily due to increases in acquisition costs in warranty service programs and in the automobile business, partially offset by lower A&H direct marketing expenses.

The general operating expense ratio decreased by 2.0 points in the three-month period ended September 30, 2015, compared to the same period in the prior year, reflecting the timing of investment in strategic initiatives together with an ongoing focus on cost efficiency. The general operating expense ratio decreased by 0.5 points in the nine-month period ended September 30, 2015, compared to the same period in the prior year, primarily due to an ongoing focus on cost efficiency.

CORPORATE AND OTHER

As a result of the progress of the wind down and de-risking activities of the DIB and the derivative portfolio of AIGFP included within GCM, AIG has discontinued separate reporting of the DIB and GCM. Their results are reported within Income from other assets, net, beginning with the first quarter of 2015. This reporting aligns with the manner in which AIG manages its financial resources. Prior periods are presented in the historical format for informational purposes.

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Corporate and Other Results

The following table presents AIG's Corporate and Other results:

(in millions)	Three Months Ended September 30, **2015**	2014	Percentage Change	Nine Months Ended September 30, **2015**	2014	Percentag Chang
Corporate and Other pre-tax operating income (loss):						
Equity in pre-tax operating earnings of AerCap[(a)]	**$ -**	$ 196	NM%	**$ 255**	$ 249	
Fair value of PICC investments[(b)]	**(195)**	(30)	NM	**22**	(30)	N
Income from other assets, net[(c)]	**15**	214	(93)	**1,088**	263	31
Corporate general operating expenses	**(133)**	(317)	58	**(653)**	(858)	2
Interest expense	**(266)**	(310)	14	**(849)**	(962)	1
Direct Investment book	**-**	314	NM	**-**	1,067	N
Global Capital Markets	**-**	58	NM	**-**	332	N
Run-off insurance Lines	**(54)**	25	NM	**37**	(23)	N
Consolidation and eliminations	**20**	(1)	NM	**21**	1	N
Total Corporate and Other pre-tax operating income (loss)	**$(613)**	$ 149	NM%	**$ (79)**	$ 39	N

(a) Represents our share of AerCap's pre-tax operating income, which excludes certain post-acquisition transaction expenses incurred by 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.

(b) During the first quarter of 2015, Non-Life Insurance Companies sold a portion of their investment in PICC P&C to AIG Parent. During 2014, the Life Insurance Companies sold their investment in PICC Group to AIG Parent.

(c) Consists of the results of investments held by AIG Parent to support various corporate needs as well as the remaining positions of AIGFP, life settlements, real estate, equipment leasing and lending and other secured lending investments held by AIG Parent and certain subsidiaries.

Corporate and Other Quarterly Results

Corporate and Other reported a pre-tax operating loss in the three-month period ended September 30, 2015, compared to pre-tax operating income in the same period in the prior year, primarily due to lower fair value appreciation on ABS CDOs as a result of widening credit spreads, now reflected in Income from other assets, net; and higher fair value losses in our PICC P&C and PICC Group investments. In addition, the three-month period ended September 30, 2014 included our share of AerCap's pre-tax operating income, which was accounted for under the equity method through the date of sale of most of our AerCap common shares in the second quarter of 2015. Partially offsetting these declines were lower corporate general operating expenses resulting from a pension curtailment credit and lower interest expense from ongoing liability management activities described in Liquidity and Capital Resources.

Run-off insurance lines reported a pre-tax operating loss of $54 million in the three-month period ended September 30, 2015 compared to pre-tax operating income of $25 million in the same period in the prior year primarily due to an increase in net unfavorable prior year loss reserve development, as well as an increase in net loss reserve discount charge on excess workers' compensation. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion. During the third quarter of 2015, certain environmental liability and healthcare coverages that were no longer offered by Commercial Insurance, were transferred to Run-off insurance lines, along with associated prior year adverse loss reserve development of $43 million.

Corporate and Other Year-to-Date Results

Corporate and Other reported a pre-tax operating loss in the nine-month period ended September 30, 2015, compared to pre-tax operating income in the same period in the prior year primarily due to lower fair value appreciation on ABS CDOs as a result of widening credit spreads, lower credit valuation adjustments on assets for which the fair value option was elected, and lower mark-to-market income on CDS positions as a result of portfolio wind down and spread widening, all of which are reflected in Income from other assets, net. Partially offsetting these declines were lower corporate general operating expenses

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resulting from a pension curtailment credit and lower interest expense from ongoing liability management activities described in Liquidity and Capital Resources.

Run-off insurance lines reported pre-tax operating income of $37 million in the nine-month period ended September 30, 2015 compared to pre-tax operating loss of $23 million in the same period in the prior year primarily due to higher excess workers' compensation net loss reserve discount benefit, primarily reflecting an increase in Treasury rates in the second quarter of 2015, partially offset by an increase in net unfavorable prior year loss reserve development reflecting transfers to run-off insurance lines as discussed above. See Insurance Reserves – Non-Life Insurance Companies – Discounting of Reserves for further discussion.

Overview

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the respective business models for Non-Life Insurance Companies, Life Insurance Companies and AIG Parent. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products. The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

- A widening of credit spreads resulted in a decrease in our net unrealized gain position in our investment portfolio. Net unrealized gains in our available for sale portfolio decreased to approximately $13.0 billion as of September 30, 2015 from approximately $19.0 billion as of December 31, 2014.

- We continued to make investments in structured securities and other fixed maturity securities and increased lending activities in commercial mortgage loans with favorable risk versus return characteristics to improve yields and increase net investment income.

- Although our alternative investments continue to generate higher returns than our fixed maturity securities portfolio, our investment performance tapered in the third quarter of 2015 due to negative performance in the equity markets, which affected the performance of our hedge fund portfolio.

- Blended investment yields on new investments were lower than blended rates on investments that were sold, matured or called.

- Other-than-temporary impairments increased due to impairments within the energy and emerging markets sectors, driven primarily by slowing growth in China and weakness in commodity markets.

Investment Strategies

Investment strategies are based on considerations that include the local and general market conditions, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

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Some of our key investment strategies are as follows:

• Fixed maturity securities held by the U.S. insurance companies included in Non-Life Insurance Companies consist of a mix of instruments that meet our current risk-return, tax, liquidity, credit quality and diversification objectives.

• Outside of the U.S., fixed maturity securities held by Non-Life Insurance Companies consist primarily of intermediate duration high-grade securities generally denominated in the currencies of the countries in which we operate.

• While more of a focus is placed on asset-liability management in Life Insurance Companies, our fundamental strategy across all of our investment portfolios is to optimize the duration characteristics of the assets within a target range based on comparable liability characteristics, to the extent practicable.

• AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate term investment-grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate term, investment-grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

Investments

The following tables summarize the composition of AIG's investments:

(in millions)	Non-Life Insurance Companies	Life Insurance Companies	Corporate and Other	Total
September 30, 2015				
Fixed maturity securities:				
Bonds available for sale, at fair value	**$ 88,973**	**$ 158,224**	**$ 5,757**	**$ 252,954**
Other bond securities, at fair value	**1,519**	**2,618**	**12,685**	**16,822**
Equity securities:				
Common and preferred stock available for sale, at fair value	**3,494**	**135**	**163**	**3,792**
Other Common and preferred stock, at fair value	**346**	**-**	**720**	**1,066**
Mortgage and other loans receivable, net of allowance	**7,677**	**22,799**	**(2,240)**	**28,236**
Other invested assets	**9,873**	**13,799**	**7,451**	**31,123**
Short-term investments	**3,701**	**3,732**	**4,975**	**12,408**
Total investments*	**115,583**	**201,307**	**29,511**	**346,401**

Cash	**1,048**	**388**	**133**	**1,569**
Total invested assets	**$ 116,631**	**$ 201,695**	**$ 29,644**	**$ 347,970**
December 31, 2014				
Fixed maturity securities:				
Bonds available for sale, at fair value	$ 92,942	$ 164,527	$ 2,390	$ 259,859
Other bond securities, at fair value	1,733	2,785	15,194	19,712
Equity securities:				
Common and preferred stock available for sale, at fair value	4,241	150	4	4,395
Other Common and preferred stock, at fair value	495	-	554	1,049
Mortgage and other loans receivable, net of allowance	6,686	20,874	(2,570)	24,990
Other invested assets	10,372	11,916	12,230	34,518
Short-term investments	4,154	2,131	4,958	11,243
Total investments*	120,623	202,383	32,760	355,766
Cash	1,191	451	116	1,758
Total invested assets	$ 121,814	$ 202,834	$ 32,876	$ 357,524

* At both September 30, 2015 and December 31, 2014, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively.

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The following table presents the components of Net Investment Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Interest and dividends	**$ 3,204**	$ 3,352	**$ 9,599**	$ 9,963
Alternative investments	**88**	636	**1,471**	2,108
Other investment income*	**47**	173	**202**	435
Total investment income	**3,339**	4,161	**11,272**	12,506
Investment expenses	**133**	133	**402**	398
Total net investment income	**$ 3,206**	$ 4,028	**$ 10,870**	$ 12,108

* Includes changes in fair value of certain fixed maturity securities where the fair value option has been elected and which are used to economically hedge the interest rate risk in GMWB embedded derivatives. For the three-month periods ended September 30, 2015 and 2014, the net investment income (loss) recorded on these securities was $4 million and $32 million, respectively. For the nine-month periods ended September 30, 2015 and 2014, the net investment income (loss) recorded on these securities was $(39) million and $162 million, respectively.

Net investment income decreased for the three-month period ended September 30, 2015, compared to the same period in the prior year due to lower income on alternative investments, lower reinvestment yields and lower income on investments for which the fair value option was elected. Net investment income decreased for the nine-month period ended September 30, 2015, compared to the same period in the prior year, due to lower income on alternative investments, lower reinvestment yields, and lower income on investments for which the fair value option was elected.

Non-Life Insurance Companies

For the Non-Life Insurance Companies, the duration of liabilities for long-tail casualty lines is greater than that of other lines. As a result, the investment strategy within the Non-Life Insurance Companies focuses on growth of surplus and preservation of capital, subject to liability and other business considerations.

The Non-Life Insurance Companies invest primarily in fixed maturity securities issued by corporations, municipalities and other governmental agencies and also invest in structured securities collateralized by, among other assets, residential and commercial real estate and commercial mortgage loans. While invested assets backing reserves of the Non-Life Insurance Companies are primarily invested in conventional fixed maturity securities, we have continued to allocate a portion of our investment activity into asset classes that offer higher yields, particularly in the domestic operations. In addition, we continue to invest in both fixed rate and floating rate asset-backed investments for their risk-return attributes, as well as to manage our exposure to potential changes in interest rates. This asset diversification has maintained stable average yields while the overall credit ratings of our fixed maturity securities were largely unchanged. We expect to continue to pursue this investment strategy to meet the Non-Life Insurance Companies' liquidity, duration and credit quality objectives as well as current risk return and tax objectives.

In addition, the Non-Life Insurance Companies seek to enhance returns through investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields and have provided added diversification to the broader portfolio. The Non-Life Insurance Companies' investment portfolio also includes, to a lesser extent, equity securities.

With respect to non-affiliate over the counter derivatives, the Non-Life Insurance Companies conduct business with highly rated counterparties and do not expect the counterparties to fail to meet their obligations under the contracts. The Non-Life Insurance Companies have controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. The Non-Life Insurance Companies generally use ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed maturity investments of the Non-Life Insurance Companies domestic operations, with an intermediate duration of 4.7 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as

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well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed maturity investments held in the Non-Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and short to intermediate duration, averaging 3.3 years.

Life Insurance Companies

The investment strategy of the Life Insurance Companies is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset liability management and available investment opportunities.

The Life Insurance Companies use asset liability management as a primary tool to monitor and manage risk in their businesses. The Life Insurance Companies' fundamental investment strategy is to maintain a diversified, high quality portfolio of fixed maturity securities that, to the extent possible, complements the characteristics of liabilities, including duration, which is a measure of sensitivity to changes in interest rates. The investment portfolio of each product line is tailored to the specific characteristics of its insurance liabilities, and as a result, certain portfolios are shorter in duration and others are longer in duration. An extended low interest rate environment may result in a lengthening of liability durations from initial estimates, primarily due to lower lapses.

The Life Insurance Companies invest primarily in fixed maturity securities issued by corporations, municipalities and other governmental agencies; structured securities collateralized by, among other assets, residential and commercial real estate; and commercial mortgage loans.

In addition, the Life Insurance Companies seek to enhance returns through investments in a diversified portfolio of alternative investments. Although these alternative investments are subject to periodic earnings fluctuations, they have historically achieved yields in excess of the fixed maturity portfolio yields. The Life Insurance Companies investment portfolio also includes, to a lesser extent, equity securities and yield enhancing investments.

The Life Insurance Companies monitor fixed income markets, including the level of interest rates, credit spreads and the shape of the yield curve. The Life Insurance Companies frequently review their interest rate assumptions and actively manage the crediting rates used for their new and in-force business. Business strategies continue to evolve to maintain profitability of the overall business in a historically low interest rate environment. The low interest rate environment makes it more difficult to profitably price attractive guaranteed return products and puts margin pressure on existing products, due to the challenge of investing recurring premiums and deposits and reinvesting investment portfolio cash flows in the low rate environment while maintaining satisfactory investment quality and liquidity. In addition, there is investment risk associated with future premium receipts from certain in force business. Specifically, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

Fixed maturity investments of the Life Insurance Companies domestic operations, with an intermediate duration of 6.5 years, are comprised of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity investments held in the Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and intermediate to long duration, averaging 12.9 years.

NAIC Designations of Fixed Maturity Securities

The Securities Valuation Office (SVO) of the National Association of Insurance Companies (NAIC) evaluates the investments of U.S. insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called ‘NAIC Designations.’ In general, NAIC Designations of ‘1’ highest quality, or ‘2’ high quality, include fixed maturity securities considered investment grade, while NAIC Designations of ‘3’ through ‘6’ generally include fixed maturity securities referred to

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as below investment grade. The NAIC has adopted revised rating methodologies for certain structured securities, including non-agency RMBS and CMBS, which are intended to enable a more precise assessment of the value of such structured securities and increase the accuracy in assessing expected losses to better determine the appropriate capital requirement for such structured securities. These methodologies result in an improved NAIC Designation for such securities compared to the rating typically assigned by the three major rating agencies. The following tables summarize the ratings distribution of Life Insurance Companies fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies. See Investments – Credit Ratings herein for a full description of the composite AIG credit ratings.

The following table presents the fixed maturity security portfolio of Life Insurance Companies categorized by NAIC Designation, at fair value:

September 30, 2015
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Inv
Other fixed maturity securities	$ 45,056	$ 58,950	$ 104,006	$ 5,170	$ 2,606	$ 302	$ 139	$
Mortgage-backed, asset-backed and collateralized	40,735	1,920	42,655	382	347	29	945	
Total*	$ 85,791	$ 60,870	$ 146,661	$ 5,552	$ 2,953	$ 331	$ 1,084	$

* Excludes $4.3 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

The following table presents the fixed maturity security portfolio of Life Insurance Companies categorized by composite AIG credit rating, at fair value:

September 30, 2015
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	Total Investment Grade	BB	B	CCC and Lower
Other fixed maturity securities	$ 44,921	$ 59,410	$ 104,331	$ 4,765	$ 2,717	$ 410 $
Mortgage-backed, asset-backed and collateralized	25,130	3,258	28,388	1,225	1,273	13,472
Total*	$ 70,051	$ 62,668	$ 132,719	$ 5,990	$ 3,990	$ 13,882 $

* Excludes $4.3 billion of fixed maturity securities for which no NAIC Designation is available because they are not held in legal entities within Life Insurance Companies that require a statutory filing.

Credit Ratings

At September 30, 2015, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 16 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 17 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), or similar foreign rating services. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At September 30, 2015, approximately 15 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 5 percent were below investment grade or not

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rated. Approximately 43 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

With respect to our fixed maturity investments, the credit ratings in the table below and in subsequent tables reflect: (a) a composite of the ratings of the three major rating agencies, or when agency ratings are not available, the rating assigned by the NAIC SVO (over 99 percent of total fixed maturity investments), or (b) our equivalent internal ratings when these investments have not been rated by any of the major rating agencies or the NAIC. The "Non-rated" category in those tables consists of fixed maturity securities that have not been rated by any of the major rating agencies, the NAIC or us.

See Enterprise Risk Management herein for a discussion of credit risks associated with Investments.

The following table presents the composite AIG credit ratings of our fixed maturity securities calculated on the basis of their fair value:

	Available for Sale		Other		Total	
(in millions)	**September 30, 2015**	December 31, 2014	**September 30, 2015**	December 31, 2014	**September 30, 2015**	December 31, 2014
Rating:						
Other fixed maturity securities						
AAA	**$ 12,537**	$ 15,463	**$ 3,663**	$ 5,322	**$ 16,200**	$ 20,785
AA	**36,408**	36,730	**151**	224	**36,559**	36,954
A	**52,577**	56,693	**970**	242	**53,547**	56,935
BBB	**73,448**	75,607	**220**	250	**73,668**	75,857
Below investment grade	**12,098**	10,651	**135**	303	**12,233**	10,954
Non-rated	**910**	1,035	**-**	-	**910**	1,035
Total	**$ 187,978**	$ 196,179	**$ 5,139**	$ 6,341	**$ 193,117**	$ 202,520
Mortgage-backed, asset-backed and collateralized						
AAA	**$ 25,897**	$ 24,783	**$ 1,841**	$ 2,313	**$ 27,738**	$ 27,096
AA	**4,685**	4,078	**919**	1,549	**5,604**	5,627
A	**7,501**	7,606	**487**	494	**7,988**	8,100
BBB	**4,529**	3,813	**528**	620	**5,057**	4,433
Below investment grade	**22,348**	23,376	**7,849**	8,314	**30,197**	31,690
Non-rated	**16**	24	**59**	81	**75**	105
Total	**$ 64,976**	$ 63,680	**$ 11,683**	$ 13,371	**$ 76,659**	$ 77,051

Total						
AAA	$ **38,434**	$ 40,246	$ **5,504**	$ 7,635	$ **43,938**	$ 47,881
AA	**41,093**	40,808	**1,070**	1,773	**42,163**	42,581
A	**60,078**	64,299	**1,457**	736	**61,535**	65,035
BBB	**77,977**	79,420	**748**	870	**78,725**	80,290
Below investment grade	**34,446**	34,027	**7,984**	8,617	**42,430**	42,644
Non-rated	**926**	1,059	**59**	81	**985**	1,140
Total	$ **252,954**	$ 259,859	$ **16,822**	$ 19,712	$ **269,776**	$ 279,571

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Available for Sale Investments

The following table presents the fair value of our available for sale securities:

(in millions)	Fair Value at September 30, 2015	Fair Value at December 31, 2014
Bonds available for sale:		
U.S. government and government sponsored entities	$ 1,882	$ 2,992
Obligations of states, municipalities and political subdivisions	27,546	27,659
Non-U.S. governments	18,428	21,095
Corporate debt	140,122	144,433
Mortgage-backed, asset-backed and collateralized:		
RMBS	35,625	37,520
CMBS	13,717	12,885
CDO/ABS	15,634	13,275
Total mortgage-backed, asset-backed and collateralized	64,976	63,680
Total bonds available for sale*	252,954	259,859
Equity securities available for sale:		
Common stock	2,961	3,629
Preferred stock	23	25
Mutual funds	808	741
Total equity securities available for sale	3,792	4,395
Total	$ 256,746	$ 264,254

* At September 30, 2015, and December 31, 2014, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $35.4 billion and $35.1 billion, respectively.

The following table presents the fair value of our aggregate credit exposures to non-U.S. governments for our fixed maturity securities:

(in millions)	September 30, 2015	December 31, 2014
Japan	$ 5,192	$ 5,728
Canada	1,574	2,181
Germany	1,017	1,315
France	646	614
United Kingdom	646	648
Mexico	554	661
Norway	547	619
Netherlands	517	639

Singapore	**489**	545
Chile	**385**	395
Other	**6,863**	7,752
Total	**$ 18,430**	$ 21,097

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The following table presents the fair value of our aggregate European credit exposures by major sector for our fixed maturity securities:

	September 30, 2015					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2014 Total
Euro-Zone countries:						
France	$ 646	$ 1,332	$ 2,118	$ -	$ 4,096	$ 4,498
Netherlands	517	1,015	1,612	448	3,592	4,276
Germany	1,017	331	2,218	22	3,588	4,155
Ireland	2	-	644	682	1,328	850
Spain	29	75	997	17	1,118	1,557
Italy	9	145	889	11	1,054	1,245
Belgium	216	125	519	-	860	973
Luxembourg	-	18	476	32	526	243
Finland	53	32	132	-	217	235
Austria	112	11	10	-	133	155
Other - EuroZone*	650	50	198	1	899	1,022
Total Euro-Zone	$ 3,251	$ 3,134	$ 9,813	$ 1,213	$ 17,411	$ 19,209
Remainder of Europe						
United Kingdom	$ 646	$ 3,047	$ 7,964	$ 4,006	$ 15,663	$ 16,076
Switzerland	40	1,078	1,379	-	2,497	2,941
Sweden	182	528	195	-	905	1,135
Norway	547	52	145	-	744	846
Russian Federation	41	8	97	-	146	311
Other - Remainder of Europe	186	112	107	15	420	494
Total - Remainder of Europe	$ 1,642	$ 4,825	$ 9,887	$ 4,021	$ 20,375	$ 21,803
Total	$ 4,893	$ 7,959	$ 19,700	$ 5,234	$ 37,786	$ 41,012

* At September 30, 2015, we did not have material credit exposure to the government of Greece.

Investments in Municipal Bonds

At September 30, 2015, the U.S. municipal bond portfolio of Non-Life Insurance Companies was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 95 percent of the portfolio rated A or higher.

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The following table presents the fair values of our available for sale U.S. municipal bond portfolio by state and municipal bond type:

	September 30, 2015				December 31, 2014
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	Total Fair Value
State:					
New York	$ 36	$ 630	$ 4,085	$ 4,751	$ 4,116
California	664	609	2,584	3,857	4,707
Texas	329	1,560	1,542	3,431	3,356
Illinois	112	367	912	1,391	1,364
Massachusetts	690	-	658	1,348	1,417
Washington	482	75	694	1,251	1,278
Florida	137	-	909	1,046	1,052
Virginia	66	62	824	952	918
Georgia	281	241	322	844	819
Washington DC	155	-	559	714	607
Pennsylvania	270	22	370	662	537
Arizona	-	93	518	611	734
Ohio	129	35	417	581	604
All other states[(a)]	1,074	557	4,476	6,107	6,150
Total[(b)(c)]	$ 4,425	$ 4,251	$ 18,870	$ 27,546	$ 27,659

(a) At September 30, 2015, we did not have material credit exposure to the government of Puerto Rico.

(b) Excludes certain university and not-for-profit entities that issue their bonds in the corporate debt market. Includes industrial revenue bonds.

(c) Includes $3.0 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

The following table presents the industry categories of our available for sale corporate debt securities:

Industry Category *(in millions)*	**Fair Value at September 30, 2015**	Fair Value at December 31, 2014
Financial institutions:		
Money Center /Global Bank Groups	$ 9,355	$ 10,682

Regional banks — other	**507**	543
Life insurance	**3,352**	3,575
Securities firms and other finance companies	**411**	422
Insurance non-life	**5,593**	5,625
Regional banks — North America	**6,656**	6,636
Other financial institutions	**7,459**	8,169
Utilities[(a)]	**18,870**	19,249
Communications	**10,696**	10,316
Consumer noncyclical	**15,749**	16,792
Capital goods	**9,314**	8,594
Energy[(a)]	**15,198**	16,494
Consumer cyclical	**10,046**	11,197
Basic	**8,305**	9,187
Other	**18,611**	16,952
Total [(b)]	**$ 140,122**	$ 144,433

(a) The Utilities and Energy amounts at December 31, 2014, have been revised from $23.7 billion and $12.0 billion to $19.2 billion and $16.5 billion, respectively, to conform to current industry classification, which are not considered material to previously issued financial statements.

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(b) At September 30, 2015, and December 31, 2014, approximately 92 percent and 93 percent, respectively, of these investments were rated investment grade.

Investments in RMBS

The following table presents AIG's RMBS available for sale investments by year of vintage:

(in millions)	Fair Value at September 30, 2015	Fair Value at December 31, 2014
Total RMBS		
2015	$ 893	$ -
2014	998	871
2013	2,199	2,724
2012	2,026	2,382
2011	4,832	5,310
2010 and prior*	24,677	26,233
Total RMBS	$ 35,625	$ 37,520
Agency		
2015	$ 655	$ -
2014	902	799
2013	2,114	2,625
2012	1,925	2,234
2011	2,939	3,428
2010 and prior	2,737	3,324
Total Agency	$ 11,272	$ 12,410
Alt-A		
2015	-	-
2014	-	-
2013	-	-
2012	-	-
2011	$ -	$ -
2010 and prior	13,193	13,001
Total Alt-A	$ 13,193	$ 13,001
Subprime		
2015	-	-
2014	-	-
2013	-	-
2012	-	-
2011	-	-

2010 and prior	$	2,286	$	2,423
Total Subprime	$	2,286	$	2,423
Prime non-agency				
2015	$	-	$	-
2014		-		-
2013		8		8
2012		87		126
2011		1,892		1,882
2010 and prior		6,063		7,047
Total Prime non-agency	$	8,050	$	9,063
Total Other housing related	$	824	$	623

* Includes approximately $13.4 billion and $13.5 billion at September 30, 2015, and December 31, 2014, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 to the Condensed Consolidated Financial Statements for additional discussion on Purchased Credit Impaired (PCI) Securities.

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The following table presents our RMBS available for sale investments by credit rating:

(in millions)	Fair Value at September 30, 2015	Fair Value at December 31, 2014
Rating:		
Total RMBS		
AAA	$ 13,697	$ 14,699
AA	388	418
A	566	546
BBB	682	911
Below investment grade[(a)]	20,287	20,937
Non-rated	5	9
Total RMBS[(b)]	$ 35,625	$ 37,520
Agency RMBS		
AAA	$ 11,268	$ 12,405
AA	4	5
Total Agency	$ 11,272	$ 12,410
Alt-A RMBS		
AAA	$ 5	$ 7
AA	18	33
A	129	85
BBB	230	317
Below investment grade[(a)]	12,811	12,559
Total Alt-A	$ 13,193	$ 13,001
Subprime RMBS		
AAA	$ 15	$ 18
AA	76	117
A	265	252
BBB	183	207
Below investment grade[(a)]	1,747	1,829
Total Subprime	$ 2,286	$ 2,423
Prime non-agency		
AAA	$ 2,084	$ 2,076
AA	176	253
A	169	205
BBB	232	351
Below investment grade[(a)]	5,384	6,169
Non-rated	5	9
Total prime non-agency	$ 8,050	$ 9,063
Total Other housing related	$ 824	$ 623

(a) Includes certain RMBS that had experienced deterioration in credit quality since their origination. See Note 5 to the Condensed Consolidated Financial Statements for additional discussion on PCI Securities.

(b) The weighted average expected life was six years at both September 30, 2015 and December 31, 2014.

Our underwriting practices for investing in RMBS, other asset backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction.

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Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)	Fair Value at September 30, 2015	Fair Value at December 31, 2014
CMBS (traditional)	$ 11,421	$ 11,265
Agency	1,456	1,372
Other	840	248
Total	$ 13,717	$ 12,885

The following table presents the fair value of our CMBS available for sale investments by rating agency designation and by vintage year:

(in millions)	AAA	AA	A	BBB	Below Investment Grade	Non-Rated	Total
September 30, 2015							
Year:							
2015	$ 629	$ 331	$ 119	$ 554	$ -	$ -	$ 1,633
2014	1,619	188	12	-	-	-	1,819
2013	2,679	440	91	55	-	-	3,265
2012	775	61	27	89	-	11	963
2011	1,036	20	37	22	-	-	1,115
2010 and prior	989	521	869	712	1,831	-	4,922
Total	$ 7,727	$ 1,561	$ 1,155	$ 1,432	$ 1,831	$ 11	$ 13,717
December 31, 2014							
Year:							
2014	$ 1,570	$ 183	$ 11	$ -	$ -	$ -	$ 1,764
2013	2,684	442	91	58	-	-	3,275
2012	1,158	61	28	92	-	12	1,351
2011	1,022	20	37	21	-	-	1,100
2010 and prior	1,119	626	814	843	1,993	-	5,395
Total	$ 7,553	$ 1,332	$ 981	$ 1,014	$ 1,993	$ 12	$ 12,885

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The following table presents our CMBS available for sale investments by geographic region:

(in millions)	**Fair Value at September 30, 2015**	Fair Value at December 31, 2014
Geographic region:		
New York	**$ 3,202**	$ 2,759
California	**1,275**	1,305
Texas	**816**	831
Florida	**539**	562
New Jersey	**441**	457
Virginia	**383**	389
Illinois	**315**	344
Pennsylvania	**305**	291
Georgia	**262**	286
Massachusetts	**235**	247
North Carolina	**219**	222
Maryland	**211**	222
All Other*	**5,514**	4,970
Total	**$ 13,717**	$ 12,885

* Includes Non-U.S. locations.

The following table presents our CMBS available for sale investments by industry:

(in millions)	**Fair Value at September 30, 2015**	Fair Value at December 31, 2014
Industry:		
Retail	**$ 4,053**	$ 3,700
Office	**4,000**	3,652
Multi-family*	**2,951**	2,889
Lodging	**1,078**	1,127
Industrial	**978**	679
Other	**657**	838
Total	**$ 13,717**	$ 12,885

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable during the third quarter of 2015. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

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Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

(in millions)	Fair value at September 30, 2015	Fair value at December 31, 2014
Collateral Type:		
Bank loans (CLO)	$ 8,072	$ 6,683
Synthetic investment grade	7	-
Other	157	388
Total	$ 8,236	$ 7,071

The following table presents our CDO available for sale investments by credit rating:

(in millions)	Fair Value at September 30, 2015	Fair Value at December 31, 2014
Rating:		
AAA	$ 3,070	$ 1,922
AA	2,472	2,135
A	2,197	2,317
BBB	328	366
Below investment grade	169	331
Total	$ 8,236	$ 7,071

Commercial Mortgage Loans

At September 30, 2015, we had direct commercial mortgage loan exposure of $20.8 billion. At that date, over 99 percent of the loans were current.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

		Class							
(dollars in millions)	Number of Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
September 30, 2015									
State:									
New York	93	$ 606	$ 2,583	$ 584	$ 301	$ 167	$ 187	$ 4,428	21%

California	103	88	522	435	600	584	302	2,531	12
Texas	60	120	660	116	148	187	49	1,280	6
New Jersey	46	475	336	331	-	29	32	1,203	6
Florida	81	143	125	376	117	137	151	1,049	5
Illinois	21	174	369	21	33	36	23	656	3
Pennsylvania	49	45	27	448	86	15	4	625	3
Massachusetts	20	31	180	360	-	-	33	604	3
Connecticut	20	313	153	24	81	-	-	571	3
Colorado	18	61	229	48	8	120	12	478	2
Other states	321	1,096	1,055	1,630	464	418	228	4,891	24
Foreign	143	476	1,463	87	166	295	15	2,502	12
Total*	975	$ 3,628	$ 7,702	$ 4,460	$ 2,004	$ 1,988	$ 1,036	$ 20,818	100%

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December 31, 2014									
State:									
New York	90	$ 545	$ 2,111	$ 285	$ 148	$ 68	$ 215	$ 3,372	18%
California	115	29	635	389	472	597	469	2,591	14
New Jersey	48	490	353	308	-	30	74	1,255	7
Florida	89	141	192	335	118	137	161	1,084	6
Texas	58	62	482	121	171	187	54	1,077	6
Illinois	24	175	327	26	73	36	-	637	3
Massachusetts	19	-	198	321	-	-	34	553	3
Colorado	18	62	158	48	-	120	101	489	2
Connecticut	23	279	155	5	43	-	-	482	2
Pennsylvania	49	45	89	170	107	16	5	432	2
Other states	349	920	1,140	1,738	494	310	281	4,883	26
Foreign	142	636	678	78	63	176	423	2,054	11
Total*	1,024	$ 3,384	$ 6,518	$ 3,824	$ 1,689	$ 1,677	$ 1,817	$ 18,909	100%

* Does not reflect allowance for losses.

See Note 7 to the Consolidated Financial Statements in the 2014 Annual Report for additional discussion on commercial mortgage loans.

Impairments

The following table presents impairments by investment type:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Other-than-temporary Impairments:				
Fixed maturity securities, available for sale	**$ 167**	$ 30	**$ 330**	$ 121
Equity securities, available for sale	**75**	5	**161**	16
Private equity funds and hedge funds	**31**	15	**74**	27
Subtotal	**273**	50	**565**	164
Other impairments:				
Investments in life settlements	**58**	52	**200**	139
Other investments	**22**	62	**69**	117
Real estate	**-**	-	**5**	-
Total	**$ 353**	$ 164	**$ 839**	$ 420

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Other-Than-Temporary Impairments

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

Other-than-temporary impairment charges by reportable segment and impairment type:

(in millions)	Non-Life Insurance Companies	Life Insurance Companies	Corporate and Other Operations	Total
Three Months Ended September 30, 2015				
Impairment Type:				
Severity	**$ 10**	**$ -**	**$ -**	**$ 10**
Change in intent	**3**	**76**	**2**	**81**
Foreign currency declines	**5**	**-**	**-**	**5**
Issuer-specific credit events	**107**	**69**	**-**	**176**
Adverse projected cash flows	**-**	**1**	**-**	**1**
Total	**$ 125**	**$ 146**	**$ 2**	**$ 273**
Three Months Ended September 30, 2014				
Impairment Type:				
Severity	$ -	$ -	$ -	$ -
Change in intent	7	7	-	14
Foreign currency declines	1	2	-	3
Issuer-specific credit events	10	21	-	31
Adverse projected cash flows	-	2	-	2
Total	$ 18	$ 32	$ -	$ 50
Nine Months Ended September 30, 2015				
Impairment Type:				
Severity	**$ 12**	**$ -**	**$ -**	**$ 12**
Change in intent	**5**	**107**	**81**	**193**
Foreign currency declines	**19**	**18**	**-**	**37**
Issuer-specific credit events	**161**	**153**	**-**	**314**
Adverse projected cash flows	**3**	**6**	**-**	**9**
Total	**$ 200**	**$ 284**	**$ 81**	**$ 565**
Nine Months Ended September 30, 2014				

Impairment Type:				
Severity	$ -	$ -	$ -	$ -
Change in intent	8	12	-	20
Foreign currency declines	8	5	-	13
Issuer-specific credit events	35	89	-	124
Adverse projected cash flows	2	5	-	7
Total	$ 53	$ 111	$ -	$ 164

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Other-than-temporary impairment charges by investment type and impairment type:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended September 30, 2015						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 10**	**$ 10**
Change in intent	**-**	**-**	**1**	**73**	**7**	**81**
Foreign currency declines	**-**	**-**	**-**	**5**	**-**	**5**
Issuer-specific credit events	**10**	**-**	**5**	**72**	**89**	**176**
Adverse projected cash flows	**1**	**-**	**-**	**-**	**-**	**1**
Total	**$ 11**	**$ -**	**$ 6**	**$ 150**	**$ 106**	**$ 273**
Three Months Ended September 30, 2014						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ -	$ -
Change in intent	-	-	-	9	5	14
Foreign currency declines	-	-	-	3	-	3
Issuer-specific credit events	16	-	-	-	15	31
Adverse projected cash flows	2	-	-	-	-	2
Total	$ 18	$ -	$ -	$ 12	$ 20	$ 50
Nine Months Ended September 30, 2015						
Impairment Type:						
Severity	**$ -**	**$ -**	**$ -**	**$ -**	**$ 12**	**$ 12**
Change in intent	**3**	**-**	**1**	**104**	**85**	**193**
Foreign currency declines	**-**	**-**	**-**	**37**	**-**	**37**
Issuer-specific credit events	**63**	**2**	**8**	**103**	**138**	**314**
Adverse projected cash flows	**9**	**-**	**-**	**-**	**-**	**9**
Total	**$ 75**	**$ 2**	**$ 9**	**$ 244**	**$ 235**	**$ 565**
Nine Months Ended September 30, 2014						
Impairment Type:						
Severity	$ -	$ -	$ -	$ -	$ -	$ -
Change in intent	-	-	-	14	6	20
Foreign currency declines	-	-	-	13	-	13
Issuer-specific credit events	53	5	21	8	37	124
Adverse projected cash flows	7	-	-	-	-	7
Total	$ 60	$ 5	$ 21	$ 35	$ 43	$ 164

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

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Other-than-temporary impairment charges by investment type and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended September 30, 2015						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 3**	**$ -**	**$ 3**
AA	**-**	**-**	**-**	**2**	**-**	**2**
A	**-**	**-**	**-**	**1**	**-**	**1**
BBB	**1**	**-**	**-**	**9**	**-**	**10**
Below investment grade	**10**	**-**	**6**	**135**	**-**	**151**
Non-rated	**-**	**-**	**-**	**-**	**106**	**106**
Total	**$ 11**	**$ -**	**$ 6**	**$ 150**	**$ 106**	**$ 273**
Three Months Ended September 30, 2014						
Rating:						
AAA	$ -	$ -	$ -	$ -	$ -	$ -
AA	1	-	-	-	-	1
A	-	-	-	-	-	-
BBB	-	-	-	2	-	2
Below investment grade	17	-	-	10	-	27
Non-rated	-	-	-	-	20	20
Total	$ 18	$ -	$ -	$ 12	$ 20	$ 50
Nine Months Ended September 30, 2015						
Rating:						
AAA	**$ -**	**$ -**	**$ -**	**$ 7**	**$ -**	**$ 7**
AA	**-**	**-**	**-**	**8**	**-**	**8**
A	**1**	**-**	**-**	**7**	**-**	**8**
BBB	**2**	**-**	**-**	**29**	**-**	**31**
Below investment grade	**72**	**2**	**9**	**189**	**-**	**272**
Non-rated	**-**	**-**	**-**	**4**	**235**	**239**
Total	**$ 75**	**$ 2**	**$ 9**	**$ 244**	**$ 235**	**$ 565**
Nine Months Ended September 30, 2014						
Rating:						
AAA	$ -	$ -	$ -	$ 3	$ -	$ 3
AA	3	-	-	2	-	5
A	-	-	-	1	-	1
BBB	2	-	-	5	-	7
Below investment grade	55	1	21	24	-	101
Non-rated	-	4	-	-	43	47

Total	$ 60	$ 5	$ 21	$ 35	$ 43	$ 164

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

We recorded other-than-temporary impairment charges in the three- and nine-month periods ended September 30, 2015 and 2014 related to:

- issuer-specific credit events;
- securities that we intend to sell or for which it is more likely than not that we will be required to sell;
- declines due to foreign exchange rates;
- adverse changes in estimated cash flows on certain structured securities; and
- securities that experienced severe market valuation declines.

In addition, impairments are recorded on real estate and investments in life settlements.

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In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recoverable value over the remaining life of the security. The accretion that was recognized for these securities in earnings was $197 million and $183 million in the three-month periods ended September 30, 2015 and 2014, respectively, and $565 million and $544 million in the nine-month periods ended September 30, 2015 and 2014, respectively. See Note 6 to the Consolidated Financial Statements in the 2014 Annual Report for a discussion of our other-than-temporary impairment accounting policy.

The following table shows the aging of the pre-tax unrealized losses of fixed maturity and equity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

September 30, 2015	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			Total		
Aging[a] *(dollars in millions)*	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss[d]	Items
Investment grade bonds												
0-6 months	$36,668	$1,066	6,052	$ 312	$ 76	53	$ -	$ -	-	$36,980	$ 1,142	6,10
7-11 months	8,316	510	1,287	514	130	62	-	-	-	8,830	640	1,34
12 months or more	6,675	456	859	1,551	394	204	24	15	7	8,250	865	1,07
Total	$51,659	$2,032	8,198	$ 2,377	$ 600	319	$ 24	$ 15	7	$54,060	$ 2,647	8,52
Below investment grade bonds												
0-6 months	$ 6,364	$ 220	2,588	$ 202	$ 55	98	$ 3	$ 2	8	$ 6,569	$ 277	2,69
7-11 months	1,856	94	432	126	35	71	218	141	14	2,200	270	51
12 months or more	4,692	270	685	801	249	186	59	34	25	5,552	553	89
Total	$12,912	$ 584	3,705	$ 1,129	$ 339	355	$ 280	$ 177	47	$14,321	$ 1,100	4,10
Total bonds												
0-6 months	$43,032	$1,286	8,640	$ 514	$ 131	151	$ 3	$ 2	8	$43,549	$ 1,419	8,79
7-11 months	10,172	604	1,719	640	165	133	218	141	14	11,030	910	1,86
12 months or more	11,367	726	1,544	2,352	643	390	83	49	32	13,802	1,418	1,96
Total[e]	$64,571	$2,616	11,903	$ 3,506	$ 939	674	$ 304	$ 192	54	$68,381	$ 3,747	12,63
Equity securities												
0-11 months	$ 408	$ 36	136	$ 31	$ 10	57	$ -	$ -	-	$ 439	$ 46	19
12 months or more	3	-	2	27	8	3	-	-	-	30	8	
Total	$ 411	$ 36	138	$ 58	$ 18	60	$ -	$ -	-	$ 469	$ 54	19

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at September 30, 2015.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

Change in Unrealized Gains and Losses on Investments

The change in net unrealized gains and losses on investments in the third quarter of 2015 was primarily attributable to decreases in the fair value of fixed maturity securities. For the nine-month period ended September 30, 2015, net unrealized gains related to fixed maturity and equity securities decreased by $6.1 billion due primarily to the widening of credit spreads.

The change in net unrealized gains and losses on investments for the third quarter of 2014 was primarily attributable to increases in the fair value of fixed maturity securities. Net unrealized gains related to fixed maturity and equity securities increased in the nine-month period ended September 30, 2014 by $6.5 billion primarily due to the decrease in interest rates and narrowing of spreads.

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See Note 5 to the Condensed Consolidated Financial Statements for additional discussion of our investment portfolio.

The following section provides discussion of insurance reserves for both the Non-Life Insurance Companies and the Life Insurance Companies.

Non-Life Insurance Companies

The following section provides discussion of the consolidated liability for unpaid losses and loss adjustment expenses for the Non-Life Insurance Companies.

The following table presents the components of AIG's gross loss reserves by major lines of business on a U.S. statutory basis*:

(in millions)	**September 30, 2015**	December 31, 2014
Other liability occurrence (including asbestos and environmental)	**$ 17,962**	$ 19,444
International	**16,292**	16,932
Workers' compensation (net of discount)	**13,234**	14,914
Other liability claims made	**9,126**	10,051
Property	**2,902**	3,515
Auto liability	**2,118**	2,237
Commercial multiple peril	**1,855**	1,886
Medical malpractice	**1,677**	1,626
Aircraft	**1,369**	1,402
Products liability	**1,443**	1,439
Accident and health	**1,026**	1,271
Mortgage guaranty / credit	**838**	1,008
Fidelity/surety	**621**	504
Other	**973**	1,031
Total	**$ 71,436**	$ 77,260

* Presented by lines of business pursuant to statutory reporting requirements as prescribed by the NAIC.

Gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses, less estimated salvage and subrogation and applicable discount. The Non-Life Insurance Companies regularly review and update the methods and assumptions used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected in pre tax operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase prior years' estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease prior years' estimates of ultimate cost are referred to as favorable development. Net loss reserves represent gross loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance.

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The following table presents the components of net loss reserves:

(in millions)	September 30, 2015	December 31, 2014
Gross loss reserves before reinsurance and discount	**$ 74,670**	$ 80,337
Less: discount	**(3,234)**	(3,077)
Gross loss reserves, net of discount, before reinsurance	**71,436**	77,260
Less: reinsurance recoverable*	**(13,146)**	(15,648)
Net liability for unpaid losses and loss adjustment expenses	**$ 58,290**	$ 61,612

* Includes $1.3 billion and $1.5 billion of reinsurance recoverable under a retroactive reinsurance agreement at September 30, 2015, and December 31, 2014, respectively.

Gross loss reserves before reinsurance and discount are net of contractual deductible recoverable amounts due from policyholders of approximately $12.5 billion and $12.4 billion at September 30, 2015, and December 31, 2014, respectively. These recoverable amounts are related to certain policies with high deductibles (in excess of high dollar amounts retained by the insured through self-insured retentions, deductibles, retrospective programs, or captive arrangements; each referred to generically as “deductibles”), primarily for U.S. commercial casualty business, where the Non-Life Insurance Companies manage and pay the entire claim on behalf of the insured and are reimbursed by the insured for the deductible portion of the claim. At September 30, 2015, and December 31, 2014, the Non-Life Insurance Companies held collateral totaling $9.6 billion and $9.4 billion, respectively, for these deductible recoverable amounts, consisting primarily of letters of credit and assets in trusts.

The following table classifies the components of net loss reserves by business unit:

(in millions)	September 30, 2015	December 31, 2014
Commercial Property Casualty:		
Casualty	**$ 31,228**	$ 33,065
Financial lines	**8,935**	9,538
Specialty	**5,685**	5,786
Property	**3,739**	4,079
Total Commercial Property Casualty	**49,587**	52,468
Commercial Mortgage Guaranty	**814**	977
Consumer Personal Insurance		
Personal lines	**2,814**	2,763
Accident and health	**1,600**	1,878
Total Consumer Personal Insurance	**4,414**	4,641
Other run-off insurance lines*	**3,475**	3,526
Net liability for unpaid losses and loss adjustment expenses	**$ 58,290**	$ 61,612

* Beginning in September 30, 2015, Other run-off insurance lines includes $311 million of loss reserves for certain environmental liability businesses and certain healthcare coverage previously reported in Casualty and Specialty.

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Discounting of Reserves

The following table presents the components of loss reserve discount included above:

	September 30, 2015			December 31, 2014		
(in millions)	Property Casualty	Run-off Insurance Lines	Total	Property Casualty	Run-off Insurance Lines	Total
U.S. workers' compensation:						
Tabular	$ 623	$ 229	$ 852	$ 623	$ 229	$ 852
Non-tabular	1,661	713	2,374	1,525	689	2,214
Asbestos	-	8	8	-	11	11
Total reserve discount	$ 2,284	$ 950	$ 3,234	$ 2,148	$ 929	$ 3,077

The following table presents the net reserve discount benefit (charge):

	Three Months Ended September 30, 2015			2014			Nine Months Ended 2015		
(in millions)	Property Casualty	Run-off Insurance Lines	Total	Property Casualty	Run-off Insurance Lines	Total	Property Casualty	Run-off Insurance Lines	Total
Current accident year	$ 45	$ -	$ 45	$ 68	$ -	$ 68	$ 149	$ -	$ 149
Accretion and other adjustments to prior year discount	(48)	(14)	(62)	(52)	(16)	(68)	(157)	(57)	(214)
Effect of interest rate changes	(38)	(23)	(61)	-	-	-	144	78	222
Effect of re-pooling	-	-	-	-	-	-	-	-	-
Net reserve discount benefit (charge)	$ (41)	$ (37)	$ (78)	$ 16	$ (16)	$ -	$ 136	$ 21	$ 157
Comprised of:									
U.S. Workers' compensation	$ (41)	$ (36)	$ (77)	$ 16	$ (16)	$ -	$ 136	$ 24	$ 160
Asbestos	$ -	$ (1)	$ (1)	$ -	$ -	$ -	$ -	$ (3)	$ (3)

U.S. Workers' Compensation

The Non-Life Insurance Companies discount certain workers' compensation reserves in accordance with practices prescribed or permitted by New York, Pennsylvania and Delaware. New York rules generally do not permit non-tabular discounting on IBNR and prescribe a fixed 5 percent discount rate for application to case reserves. Pennsylvania permits non-tabular discounting of IBNR and, commencing in 2013, approved variable discount rates determined using risk-free rates based on the U.S. Treasury forward yield curve plus a liquidity margin, applicable to IBNR and case reserves. Delaware has permitted discounting on the same basis as the Pennsylvania domiciled companies.

The net decrease in workers' compensation discount in the three-month period ended September 30, 2015, of $77 million was due to a $61 million reduction for accident years 2014 and prior, primarily from accretion of discount on reserves for the three-month period ended September 30, 2015. In addition, decreases in the forward yield curve component of the discount rates resulted in a $61 million decrease in the loss reserve discount, as Treasury rates as of September 30, 2015 generally decreased along the payout pattern horizon as compared to the prior periods, partially offset by an increase in the credit spread. These decreases were partially offset by the effects of the discount attributable to newly established reserves for accident year 2015, which increased the discount by $45 million in the three-month period ended September 30, 2015.

The net increase in workers' compensation discount in the nine-month period ended September 30, 2015, of $160 million was primarily due to the increase in forward yield curve rates used for discounting under the prescribed or permitted practices. The increase in the forward yield curve component of the discount rates resulted in a $222 million increase in the loss reserve discount, as Treasury rates generally increased along the payout pattern horizon in the nine-month period ended September 30, 2015. In addition, the effects of the discount attributable to newly established reserves for accident year 2015 increased the discount by $149 million in the nine-month period ended September 30, 2015. These increases were partially offset by a $211 million reduction for accident years 2014 and prior, primarily from accretion of discount on reserves for the nine-month period ended September 30, 2015.

On January 1, 2014, the Non-Life Insurance Companies merged their two internal pooling arrangements into one pool, and changed the participation percentages of the pool members resulting in a reallocation of reserves from New York domiciled companies to those domiciled in Pennsylvania and Delaware. As a result of these changes in the participation percentages and domiciliary states of the participants of the combined pool, the Non-Life Insurance Companies recognized a discount benefit of $110 million in the first quarter of 2014.

Quarterly Reserving Conclusion

AIG net loss reserves represent our best estimate of the liability for net losses and loss adjustment expenses as of September 30, 2015. While we regularly review the adequacy of established loss reserves, there can be no assurance that our ultimate loss reserves will not develop adversely in future years and materially exceed our loss reserves as of September 30, 2015. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on our consolidated financial condition, although such events could have a material adverse effect on our consolidated results of operations for an individual reporting period.

The following table presents the rollforward of net loss reserves:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Net liability for unpaid losses and loss adjustment expenses at beginning of period	**$ 59,093**	$ 63,090	**$ 61,612**	$ 64,316
Foreign exchange effect	**(121)**	(46)	**(1,087)**	(2)
Change due to retroactive asbestos reinsurance transaction	**39**	35	**139**	121
Losses and loss adjustment expenses incurred:				
Current year, undiscounted	**5,067**	5,413	**15,205**	16,125
Prior years unfavorable development, undiscounted[(a)]	**191**	307	**532**	457

Change in discount	**78**	-	**(157)**	(90)
Losses and loss adjustment expenses incurred[b]	**5,336**	5,720	**15,580**	16,492
Losses and loss adjustment expenses paid[b]	**6,057**	6,435	**17,954**	18,563
Net liability for unpaid losses and loss adjustment expenses at end of period	**$ 58,290**	$ 62,364	**$ 58,290**	$ 62,364

(a) See tables below for details of prior year development by business unit, accident year and major class of business.

(b) These amounts exclude benefit from retroactive reinsurance.

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The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance, by business unit and major class of business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Prior accident year development by major class of business:				
Commercial Property Casualty - U.S. & Canada:				
Excess casualty	**$ -**	$ (44)	**$ 318**	$ (34)
Financial lines including professional liability	**10**	(9)	**13**	(76)
Environmental (2004 - ongoing)	**104**	44	**109**	44
Primary casualty:				
Loss-sensitive (offset by premium adjustments below)	**(30)**	93	**(53)**	157
Other	**21**	237	**139**	324
Healthcare	**150**	-	**156**	10
Specialty	**(26)**	11	**20**	109
Property excluding natural catastrophes	**(14)**	13	**(123)**	8
Natural catastrophes	**4**	(31)	**(37)**	(104)
All other, net	**36**	17	**69**	60
Total Commercial Property Casualty - U.S. & Canada	**255**	331	**611**	498
Commercial Property Casualty International:				
Primary casualty	**(2)**	10	**5**	3
Financial lines	**(3)**	-	**(30)**	119
Specialty	**(12)**	(9)	**(29)**	(21)
Property excluding natural catastrophes	**(69)**	(6)	**(104)**	(63)
Natural catastrophes	**(13)**	(7)	**(14)**	(54)
All other, net	**-**	-	**1**	(2)
Total Commercial Property Casualty - International	**(99)**	(12)	**(171)**	(18)
Total Commercial Property Casualty	**156**	319	**440**	480
Commercial Mortgage Guaranty	**(18)**	(13)	**(35)**	(75)
Consumer Personal Insurance - U.S. & Canada:				
Natural catastrophes	**(1)**	(1)	**(6)**	(2)
All other, net	**(31)**	(5)	**(68)**	(27)
Total Consumer Personal Insurance - U.S. & Canada	**(32)**	(6)	**(74)**	(29)
Consumer Personal Insurance - International:				
Natural catastrophes	**-**	-	**-**	(6)
All other, net	**(14)**	(6)	**15**	(7)
Total Consumer Personal Insurance - International	**(14)**	(6)	**15**	(13)
Total Consumer Personal Insurance	**(46)**	(12)	**(59)**	(42)
Run-off Insurance Lines - U.S. & Canada:				

Asbestos and environmental	**2**	5	**51**	68
Run-off environmental	**52**	-	**89**	23
Run-off healthcare*	**50**	-	**50**	-
Total all other, net	**(5)**	-	**(4)**	-
Total Run-off Insurance Lines - U.S. & Canada	**99**	5	**186**	91
Run-off Insurance Lines - International:				
Asbestos and environmental (1986 and prior)	**-**	2	**-**	(2)
Total all other, net	**-**	6	**-**	5
Total Run-off Insurance Lines - International	**-**	8	**-**	3
Total Run-off Insurance Lines	**99**	13	**186**	94
Total prior year unfavorable development	**$ 191**	$ 307	**$ 532**	$ 457
Premium adjustments on primary casualty loss sensitive business	**30**	(93)	**53**	(157)
Total prior year development, net of premium adjustments	**$ 221**	$ 214	**$ 585**	$ 300

* Both the three- and nine-month periods ended September 30, 2015 include $30 million of non-operating adverse prior year development.

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Quarterly and Year-to-Date Net Loss Development

In determining the loss development from prior accident years, AIG analyzes and evaluates the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, we examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a large change, either favorable or unfavorable. As appropriate, we make adjustments for the difference between the actual and expected loss emergence for each accident year. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues.

In the three-month period ended September 30, 2015, the adverse prior year loss reserve development was $191 million. This was driven by adverse development from Healthcare, Environmental (2004 - ongoing), and Run-off environmental, partially offset by Property excluding natural catastrophes, both domestically and internationally.

The adverse prior year development in Healthcare and Environmental (2004 - ongoing) resulted from indications of the annual detailed valuation review (DVR) performed in the third quarter of 2015 for those lines. Healthcare was driven by deteriorating loss experience in accident years 2008 and subsequent characterized by additional large claims in various segments including hospitals, physicians and surgeons, nursing homes, and pharmaceutical and medical products liability. Environmental was driven by adverse emergence in recent accident years and higher severity assumptions in the most recent accident years.

In the nine-month period ended September 30, 2015, the adverse prior year loss reserve development was $532 million, which was driven by increased automobile claim severity in Excess and Primary Casualty, as well as adverse development from Healthcare, Environmental (2004 - ongoing), Run-off Environmental, and Asbestos and Environmental (1986 and prior). This was partially offset by Property excluding natural catastrophes, both domestically and internationally.

We have observed increases in both the frequency and severity of claims occurring in our primary and excess commercial automobile liability business since the recovery from the recent economic downturn, which have significantly outpaced the rate increases implemented during the same time. We believe a combination of factors are contributing to these increases such as a mix of business weighted towards Excess auto liability for commercial trucking; increased shipping activity potentially resulting in driver fatigue; a greater incidence of claims involving multiple severe injuries and fatalities; and the general increase in damage awards.

We continued to react to these trends as new information emerged, including strengthening reserves during the annual DVR of the commercial automobile liability business in 2012, 2013 and 2014 and through our selection of the current accident year loss ratios. In addition, we made interim increases to reserves in periods between the annual DVR in 2014 and 2015. The experience in accident years 2011 and subsequent has continued to deteriorate and the DVR conducted in the second quarter of 2015 resulted in an increase of commercial automobile liability reserves by $402 million for the nine-month period ended September 30, 2015, including $91 million for primary automobile and $311 million for excess automobile, primarily in accident years 2011 through 2014.

We recognized return (additional) premiums on loss sensitive business of $30 million and $(93) million for the three-month periods ended September 30, 2015 and 2014, respectively, and $53 million and $(157) million for the nine-month periods ended September 30, 2015 and 2014, respectively, which entirely offset development in that business.

See Results of Operations — Commercial Insurance and Results of Operations — Consumer Personal Insurance Results herein for further discussion of net loss development.

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The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for prior years, net of reinsurance, by accident year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Prior accident year development by accident year:				
Accident Year				
2014	**$ (65)**	$ -	**$ (87)**	$ -
2013	**27**	(62)	**92**	(189)
2012	**(83)**	6	**69**	(84)
2011	**1**	(30)	**23**	(76)
2010	**40**	(20)	**42**	31
2009	**21**	(62)	**(9)**	36
2008	**57**	(47)	**70**	5
2007	**17**	(55)	**(30)**	(64)
2006	**29**	45	**21**	52
2005	**6**	109	**4**	122
2004 and prior (see table below)	**141**	423	**337**	624
Total prior year unfavorable development	**$ 191**	$ 307	**$ 532**	$ 457

The following table summarizes development, (favorable) or unfavorable, of incurred losses and loss adjustment expenses for accident year 2004 and prior by major class of business and driver of development:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
2004 and prior accident year development by major class of business and driver of development:				
Excess Casualty - primarily mass torts	**$ -**	$ 302	**$ -**	$ 302
Excess Casualty - all other	**-**	23	**1**	42
Primary Casualty - loss sensitive business[(a)]	**12**	34	**(3)**	52
Primary Casualty - all other[(b)]	**58**	21	**94**	58
Run-off environmental (1987 to 2004)	**39**	(1)	**86**	22
Asbestos and Environmental (1986 and prior)	**2**	2	**51**	66
Commutations and Arbitrations[(c)]	**(4)**	9	**(5)**	58
All Other	**34**	33	**113**	24
Total prior year unfavorable development	**$ 141**	$ 423	**$ 337**	$ 624

(a) Loss sensitive business that is offset by premium adjustments and has no income statement impact. Approximated based on prior accident year development recognized from policy year premium charges.

(b) Includes loss development on excess of deductible exposures in workers' compensation, general liability and commercial auto.

(c) The effects of commutations and arbitrations are shown separately from the related classes of business, Commutations and arbitrations are reflected for the years in which they were contractually binding.

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Asbestos and Environmental Reserves

Loss Reserve Estimates - Asbestos and Environmental

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2014 Annual Report, our reserves relating to asbestos and environmental claims reflect comprehensive ground up and top-down analyses performed periodically. In the nine-month period ended September 30, 2015, we increased our gross asbestos reserves by $20 million and our net asbestos reserves by $9 million due to minor changes in estimates, accretion of discount, and anticipated uncollectible reinsurance. For the same period, we increased our gross environmental reserves by $66 million and our net environmental reserves by $43 million to reflect the results of a top-down analysis of accident years 1986 and prior completed in the second quarter of 2015.

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, the Non-Life Insurance Companies also have asbestos reserves relating to foreign risks written by non U.S. entities of $122 million gross and $96 million net as of September 30, 2015. The asbestos reserves relating to non U.S. risks written by non U.S. entities were $132 million gross and $105 million net as of December 31, 2014.

The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims:

As of or for the Nine Months Ended September 30,	**2015**		2014	
(in millions)	Gross	Net	Gross	Net
Asbestos:				
Liability for unpaid losses and loss adjustment expenses at beginning of year	**$ 4,117**	**$ 388**	$ 4,720	$ 529
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts	**-**	**137**	-	123
Re-estimation of amounts recoverable under retroactive reinsurance contracts[(a)]	**-**	**(2)**	-	(3)

Change in net loss reserves due to retroactive reinsurance	**-**	**135**	-	120
Losses and loss adjustment expenses incurred:				
Undiscounted	**13**	**7**	(6)	11
Change in discount	**7**	**4**	35	20
Losses and loss adjustment expenses incurred(b)	**20**	**11**	29	31
Losses and loss adjustment expenses paid(b)	**(438)**	**(230)**	(514)	(316)
Liability for unpaid losses and loss adjustment expenses at end of period	**$ 3,699**	**$ 304**	$ 4,235	$ 364
Environmental:				
Liability for unpaid losses and loss adjustment expenses at beginning of year	**$ 368**	**$ 185**	$ 313	$ 163
Losses and loss adjustment expenses incurred	**66**	**43**	121	52
Losses and loss adjustment expenses paid	**(30)**	**(24)**	(40)	(25)
Other changes	**-**	**6**	-	-
Liability for unpaid losses and loss adjustment expenses at end of period	**$ 404**	**$ 210**	$ 394	$ 190

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Combined:				
Liability for unpaid losses and loss adjustment expenses				
at beginning of year	**$ 4,485**	**$ 573**	$ 5,033	$ 692
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts	**-**	**137**	-	123
Re-estimation of amount recoverable under retroactive				
reinsurance contracts	**-**	**(2)**	-	(3)
Change in net loss reserves due to retroactive reinsurance	**-**	**135**	-	120
Losses and loss adjustment expenses incurred:				
Undiscounted	**79**	**50**	115	63
Change in discount	**7**	**4**	35	20
Losses and loss adjustment expenses incurred	**86**	**54**	150	83
Losses and loss adjustment expenses paid	**(468)**	**(254)**	(554)	(341)
Other changes	**-**	**6**	-	-
Liability for unpaid losses and loss adjustment expenses				
at end of period	**$ 4,103**	**$ 514**	$ 4,629	$ 554

(a) Re-estimation of amounts recoverable under retroactive reinsurance contracts includes effect of changes in reserve estimates and changes in discount.

(b) These amounts exclude benefit from retroactive reinsurance.

Life Insurance Companies DAC and Reserves

The following section provides discussion of deferred policy acquisition costs and insurance reserves for Life Insurance Companies.

Update of Actuarial Assumptions

The Life Insurance Companies review and update estimated gross profit assumptions used to amortize DAC and related items for investment-oriented products at least annually. Estimated gross profit assumptions include net investment income and spreads, net realized capital gains and losses, fees, surrender charges, expenses, and mortality gains and losses. If the assumptions used for estimated gross profits change significantly, DAC and related reserves (which may include VOBA, SIA, guaranteed benefit reserves and unearned revenue reserve) are recalculated using the new assumptions, and any resulting adjustment is included in income. Updating such assumptions may result in acceleration of amortization in some products and deceleration of amortization in other products.

In addition to estimated gross profit assumptions, the update of actuarial assumptions in the three-month periods ended September 30, 2015 and 2014 included adjustments to reserves for universal life with secondary guarantees, group benefit claim reserves and loss recognition for certain long-term care products. The update of assumptions also included adjustments to the valuation of variable annuity GMWB features that are accounted for as embedded derivatives. Changes in the fair value of such embedded derivatives are recorded in net realized capital gains (losses) and, together with related DAC adjustments, are excluded from pre-tax operating income.

The net increases (decreases) to pre-tax operating income and pre-tax income as a result of the update of actuarial assumptions for the nine-month periods ended September 30, 2015 and 2014 are shown in the following tables.

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The following table presents the increase (decrease) in pre-tax operating income resulting from the update of actuarial assumptions for the domestic Life Insurance Companies, by product line:

Three Months and Nine Months Ended September 30,

(in millions)		2015		2014
Consumer Insurance:				
Retirement				
Fixed Annuities	$	92	$	196
Retirement Income Solutions		-		14
Group Retirement		48		46
Total Retirement		140		256
Life		(157)		(135)
Total Consumer Insurance		(17)		121
Commercial Insurance:				
Institutional Markets		-		1
Total increase (decrease) in pre-tax operating income from update of assumptions		(17)		122

The following table presents the increase (decrease) in pre-tax income resulting from the update of actuarial assumptions of the domestic Life Insurance Companies, by line item as reported in Results of Operations:

Three Months and Nine Months Ended September 30,

(in millions)		2015		2014
Policy fees	$	21	$	27
Interest credited to policyholder account balances		74		93
Amortization of deferred policy acquisition costs		79		166
Policyholder benefits and losses incurred		(191)		(165)
Increase (decrease) in pre-tax operating income		(17)		121
Change in DAC related to net realized capital gains (losses)		21		5
Net realized capital gains (losses)		(39)		(32)
Increase (decrease) in pre-tax income	$	(35)	$	94

In the three- and nine-month periods ended September 30, 2015, pre-tax operating income of the Life Insurance Companies in the aggregate was reduced by $17 million as a result of the update of actuarial assumptions. This aggregate net adjustment of $17 million included a net negative adjustment of $157 million in the Life operating segment, which was offset in large part by net positive adjustments in the Retirement operating segment of $92 million in Fixed Annuities and $48 million in Group Retirement.

In the three- and nine-month periods ended September 30, 2014, pre-tax operating income of the Life Insurance Companies in the aggregate was increased by $122 million as a result of the update of assumptions, primarily due to net positive adjustments in the Retirement operating segment from the update of estimated gross profit assumptions in Fixed Annuities and Group Retirement, partially offset by loss recognition for certain long-term care business and additions to reserves for universal life with secondary guarantees in the Life operating segment.

Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which are primarily in the Retirement Income Solutions and Group Retirement product lines, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. The update of GMWB valuation assumptions in the three- and nine-month periods ended September 30, 2015, including improved mortality, lapse and withdrawal assumptions, resulted in an increase in the GMWB liability. After offsets for related adjustments to DAC, this update of GMWB valuation assumptions reduced pre-tax income by $18 million in the three- and nine-month periods ended September 30, 2015.

In the three- and nine-month periods ended September 30, 2014, improved mortality assumptions for variable annuity GMWB embedded derivative liabilities resulted in a net decrease to pre-tax income of $27 million, net of DAC.

A discussion of the adjustments to reflect the update of assumptions for the Retirement and Life operating segments follows.

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Update of Actuarial Assumptions by Operating Segment

Retirement

The update of actuarial assumptions resulted in net positive adjustments to pre-tax operating earnings of the Retirement operating segment of $140 million in the three- and nine-month periods ended September 30, 2015 and $256 million in the three- and nine-month periods ended September 30, 2014.

In Fixed Annuities, the update of estimated gross profit assumptions resulted in a net positive adjustment of $92 million in the three- and nine-month periods ended September 30, 2015, which reflected refinements to investment spread assumptions, lower terminations than previously assumed and decreases to expense assumptions. The three- and nine-month periods ended September 30, 2014 included a net positive adjustment of $196 million in Fixed Annuities, primarily due to better spreads than previously assumed.

In Retirement Income Solutions, there were offsetting updates to assumed investment fees, modeled expenses, and terminations, resulting in no net adjustment to pre-tax operating earnings in the three- and nine-month periods ended September 30, 2015, compared to a $14 million net positive adjustment in the three- and nine-month periods ended September 30, 2014, primarily due to the update of mortality assumptions.

In Group Retirement, a net positive adjustment from the update of estimated gross profit assumptions of $48 million in the three- and nine-month periods ended September 30, 2015 was primarily due to revisions to mortality and surrender assumptions, partially offset by decreased spread assumptions. In the three- and nine-month periods ended September 30, 2014, a net positive adjustment in Group Retirement was primarily due to more favorable assumptions for investment spreads and surrenders than previously assumed.

Adjustments related to the update of assumptions for the valuation of variable annuity GMWB features accounted for as embedded derivatives and measured at fair value, which primarily relate to the Retirement Income Solutions and Group Retirement product lines, are recorded in net realized capital gains (losses) and excluded from pre-tax operating income. See Update of Actuarial Assumptions above for discussion of these adjustments.

Life

The net negative adjustment of $157 million related to the update of the actuarial assumptions, which reduced pre-tax operating income of the Life operating segment in the three- and nine-month periods ended September 30, 2015 was primarily due to lower assumed surrender rates for certain later-duration universal life with secondary guarantees, which represent approximately eight percent of total U.S. life reserves. The net negative adjustment also reflected lower investment spread assumptions, partially offset by more favorable than expected mortality, as well as loss recognition expense of $39 million for certain discontinued long-term care products primarily due to lower future premium assumptions. These negative adjustments were partially offset by a decrease in certain Group Benefit claim reserves based on updated experience data.

A net negative adjustment of $135 million in the Life operating segment in the three- and nine-month periods ended September 30, 2014 also included additions to reserves for universal life with secondary guarantees, primarily due to lower investment spread and mortality assumptions which, while higher than previously assumed, were still within pricing assumptions, as well as loss recognition expense.

The Life operating segment recorded loss recognition expense of $39 million and $87 million in the three-month periods ended September 30, 2015 and 2014, respectively, which reduced pre-tax operating income in the respective periods, to increase reserves for certain long-term care business. Loss recognition expense is included in Other reserve changes in the rollforward table presented in Insurance Reserves. The loss recognition for both periods was primarily a result of lower future premium increase assumptions and, in the 2014 period but to a lesser extent, lower yield assumptions. Assumptions related to investment yields, mortality experience and expenses are reviewed periodically and updated as appropriate, which could result in additional loss recognition reserves. While the domestic Life Insurance Companies do not currently offer standalone long-

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term care products, these needs are addressed with various benefits and riders in the existing portfolio, such as chronic illness riders.

DAC

The following table summarizes the major components of the changes in Life Insurance Companies DAC, including VOBA:

Nine Months Ended September 30,

(in millions)	**2015**	2014
Balance, beginning of year	**$ 7,258**	$ 6,920
Acquisition costs deferred	**935**	819
Amortization expense:		
Update of assumptions included in pre-tax operating income	**79**	167
Related to realized capital gains and losses	**(65)**	(48)
All other operating amortization	**(746)**	(624)
Increase (decrease) in DAC due to foreign exchange	**(32)**	(6)
Change related to unrealized depreciation (appreciation) of investments	**464**	(361)
Balance, end of period*	**$ 7,893**	$ 6,867

* DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments was $8.9 billion and $8.3 billion at September 30, 2015 and 2014, respectively.

The net adjustments to DAC amortization from the update of actuarial assumptions for estimated gross profits, including those reported within change in DAC related to net realized capital gains (losses), represented one percent and two percent of the DAC balance excluding the amount related to unrealized depreciation (appreciation) of investments as of September 30, 2015 and 2014, respectively.

DAC and Reserves Related to Unrealized Appreciation of Investments

DAC for universal life and investment-type products (collectively, investment-oriented products) is adjusted at each balance sheet date to reflect the change in DAC as if fixed maturity and equity securities available for sale had been sold at their stated aggregate fair value and the proceeds reinvested at current yields (shadow DAC). The change in shadow DAC generally moves in the opposite direction of the change in unrealized appreciation of the available for sale securities portfolio. In addition, significant unrealized appreciation of investments in a prolonged low interest rate environment may cause additional future policy benefit liabilities to be recorded (shadow loss reserves). Market interest rates increased as a result of widening spreads in the nine-month period ended September 30, 2015. As a result, the Life Insurance Companies' unrealized appreciation of investments in the nine-month period ended September 30, 2015 decreased by $4.4 billion compared to December 31, 2014, which resulted in an increase in shadow DAC and a decrease in shadow loss reserves. Shadow loss reserves were $304 million at September 30, 2015 compared to $1.2 billion at December 31, 2014.

The following table summarizes the major components of the changes in Life Insurance Companies DAC, including

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Item 2 / INSURANCE RESERVES / LIFE INSURANCE COMPANIES

Life Insurance Companies Reserves

The following table presents a rollforward of Life Insurance Companies' insurance reserves, including separate accounts and mutual fund assets under management, by operating segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2015**	2014	**2015**	2014
Institutional Markets:				
Balance at beginning of period, gross	**$ 35,523**	$ 32,386	**$ 35,080**	$ 32,100
Premiums and deposits	**159**	2,840	**985**	3,182
Surrenders and withdrawals	**(133)**	(343)	**(389)**	(428)
Death and other contract benefits	**(396)**	(365)	**(1,193)**	(1,117)
Subtotal	**(370)**	2,132	**(597)**	1,637
Change in fair value of underlying assets and reserve accretion, net of policy fees	**206**	184	**763**	833
Cost of funds	**102**	105	**306**	308
Other reserve changes	**(61)**	(42)	**(152)**	(113)
Balance at end of period	**35,400**	34,765	**35,400**	34,765
Reserves related to unrealized appreciation of investments	**288**	752	**288**	752
Reinsurance ceded	**(5)**	(6)	**(5)**	(6)
Total insurance reserves	**$ 35,683**	$ 35,511	**$ 35,683**	$ 35,511
Retirement:				
Balance at beginning of period, gross	**$207,868**	$203,264	**$ 204,627**	$ 195,493
Premiums and deposits	**6,639**	5,876	**18,244**	18,074
Surrenders and withdrawals	**(4,767)**	(5,208)	**(13,433)**	(13,941)
Death and other contract benefits	**(997)**	(953)	**(2,965)**	(2,775)
Subtotal	**875**	(285)	**1,846**	1,358
Change in fair value of underlying assets and reserve accretion, net of policy fees	**(5,754)**	(1,137)	**(4,862)**	3,562
Cost of funds	**688**	698	**2,037**	2,087
Other reserve changes	**15**	21	**44**	61
Balance at end of period	**203,692**	202,561	**203,692**	202,561
Reserves related to unrealized appreciation of investments	**15**	85	**15**	85
Reinsurance ceded	**(363)**	(356)	**(363)**	(356)
Total insurance reserves and mutual fund assets under management	**$203,344**	$202,290	**$ 203,344**	$ 202,290
Life:				
Balance at beginning of period, gross	**$ 33,640**	$ 33,086	**$ 33,536**	$ 32,810
Premiums and deposits	**1,223**	1,163	**3,695**	3,557

Surrenders and withdrawals	**(189)**	(211)