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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016	**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 April 27, 2016, there were 1,119,032,377 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

March 31, 2016

Table of Contents

FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

(in millions, except for share data)

Assets:
Investments:
Fixed maturity securities:
Bonds available for sale, at fair value (amortized cost: 2016 - $241,730; 2015 - $240,968)
Other bond securities, at fair value (See Note 5)
Equity Securities:
Common and preferred stock available for sale, at fair value (cost: 2016 - $1,329; 2015 - $1,379)
Other common and preferred stock, at fair value (See Note 5)
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2016 - $11; 2015 - $11)
Other invested assets (portion measured at fair value: 2016 - $7,996; 2015 - $8,912)
Short-term investments (portion measured at fair value: 2016 - $2,468; 2015 - $2,591)
Total investments

Cash
Accrued investment income
Premiums and other receivables, net of allowance
Reinsurance assets, net of allowance
Deferred income taxes
Deferred policy acquisition costs
Other assets, including restricted cash of $181 in 2016 and $170 in 2015
Separate account assets, at fair value
Total assets
Liabilities:
Liability for unpaid losses and loss adjustment expenses
Unearned premiums
Future policy benefits for life and accident and health insurance contracts
Policyholder contract deposits (portion measured at fair value: 2016 - $3,290; 2015 - $2,325)

Other policyholder funds (portion measured at fair value: 2016 - $6; 2015 - $6)
Other liabilities (portion measured at fair value: 2016 - $175; 2015 - $62)
Long-term debt (portion measured at fair value: 2016 - $3,902; 2015 - $3,670)
Separate account liabilities
Total liabilities
Contingencies, commitments and guarantees (see Note 9)

AIG shareholders' equity:
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2016 - 1,906,671,492 and 2015 - 1,906,671,492
Treasury stock, at cost; 2016 - 775,933,133 shares; 2015 - 712,754,875 shares of common stock
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity

See accompanying Notes to Condensed Consolidated Financial Statements.

2

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

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

Three Months Ended March 31, *(dollars in millions, except per share data)*		**2016**		2
Revenues:				
Premiums	$	8,806	$	8
Policy fees		687		
Net investment income		3,013		3
Net realized capital gains (losses):				
Total other-than-temporary impairments on available for sale securities		(209)		
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income		7		
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)		(202)		
Other realized capital gains (losses)		(904)		1
Total net realized capital gains (losses)		(1,106)		1
Other income		379		1
Total revenues		11,779		15
Benefits, losses and expenses:				
Policyholder benefits and losses incurred		6,387		6
Interest credited to policyholder account balances		950		
Amortization of deferred policy acquisition costs		1,262		1
General operating and other expenses		3,003		2
Interest expense		306		
Loss on extinguishment of debt		83		
Net loss on sale of properties and divested businesses		2		
Total benefits, losses and expenses		11,993		12
Income (loss) from continuing operations before income tax expense (benefit)		(214)		3
Income tax expense (benefit)		(58)		1
Income (loss) from continuing operations		(156)		2
Income (loss) from discontinued operations, net of income tax expense		(47)		
Net income (loss)		(203)		2
Less:				
Net income (loss) from continuing operations attributable to noncontrolling interests		(20)		
Net income (loss) attributable to AIG	$	(183)	$	2

Income per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**$**	**(0.12)**	$	
Loss from discontinued operations	**$**	**(0.04)**	$	
Net income (loss) attributable to AIG	**$**	**(0.16)**	$	
Diluted:				
Income (loss) from continuing operations	**$**	**(0.12)**	$	
Loss from discontinued operations	**$**	**(0.04)**	$	
Net income (loss) attributable to AIG	**$**	**(0.16)**	$	
Weighted average shares outstanding:				
Basic		**1,156,548,459**		1,365,951
Diluted		**1,156,548,459**		1,386,263
Dividends declared per common share	**$**	**0.320**	$	0

See accompanying Notes to Condensed Consolidated Financial Statements.

3

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Comprehensive Income *(unaudited)*

Three Months Ended March 31, *(in millions)*	**2016**	2015
Net income (loss)	**$ (203)**	$ 2,477
Other comprehensive income, net of tax		
Change in unrealized depreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	**(349)**	(72)
Change in unrealized appreciation of all other investments	**3,427**	539
Change in foreign currency translation adjustments	**(92)**	(459)
Change in retirement plan liabilities adjustment	**2**	29
Other comprehensive income	**2,988**	37
Comprehensive income	**2,785**	2,514
Comprehensive income (loss) attributable to noncontrolling interests	**(20)**	6
Comprehensive income attributable to AIG	**$ 2,805**	$ 2,508

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / Financial statements

American International Group, Inc.

CONDENSED CONSOLIDATED Statements of Equity *(unaudited)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income
Three Months Ended March 31, 2016					
Balance, beginning of year	**$ 4,766**	**$ (30,098)**	**$ 81,510**	**$ 30,943**	**$ 2,537**
Common stock issued under stock plans	**-**	**-**	**-**	**-**	**-**
Purchase of common stock	**-**	**(3,486)**	**-**	**-**	**-**
Net loss attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**(183)**	**-**
Dividends	**-**	**-**	**-**	**(363)**	**-**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**2,988**
Current and Deferred income taxes	**-**	**-**	**2**	**-**	**-**
Net increase due to acquisitions and consolidations	**-**	**-**	**-**	**-**	**-**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**(97)**	**(1)**	**-**
Balance, end of period	**$ 4,766**	**$ (33,584)**	**$ 81,415**	**$ 30,396**	**$ 5,525**
Three Months Ended March 31, 2015					
Balance, beginning of year	$ 4,766	$ (19,218)	$ 80,958	$ 29,775	$ 10,617
Purchase of common stock	-	(1,602)	-	-	-
Net income attributable to AIG or other noncontrolling interests	-	-	-	2,468	-
Dividends	-	-	-	(170)	-
Other comprehensive income (loss)	-	-	-	-	40
Net increase due to acquisitions and consolidations	-	-	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-
Distributions to noncontrolling interests	-	-	-	-	-
Other	-	-	345	-	-
Balance, end of period	$ 4,766	$ (20,820)	$ 81,303	$ 32,073	$ 10,657

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Three Months Ended March 31,		
(in millions)		**20**
Cash flows from operating activities:		
Net Income (loss)	**$**	**(20**
(Income) loss from discontinued operations		
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net (gains) losses on sales of securities available for sale and other assets		**2**
Net loss on sale of divested businesses		
Losses on extinguishment of debt		
Unrealized losses in earnings - net		**6**
Equity in (income) loss from equity method investments, net of dividends or distributions		**3**
Depreciation and other amortization		**1,1**
Impairments of assets		**4**
Changes in operating assets and liabilities:		
Insurance reserves		
Premiums and other receivables and payables - net		**(86**
Reinsurance assets and funds held under reinsurance treaties		**(84**
Capitalization of deferred policy acquisition costs		**(1,36**
Current and deferred income taxes - net		**(10**
Other, net		**(59**
Total adjustments		**(81**
Net cash provided by (used in) operating activities		**(96**
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale investments		**5,7**
Other securities		**1,6**
Other invested assets		**1,6**
Maturities of fixed maturity securities available for sale		**6,0**
Principal payments received on and sales of mortgage and other loans receivable		**1,1**
Purchases of:		
Available for sale investments		**(12,45**
Other securities		**(17**
Other invested assets		**(74**
Mortgage and other loans receivable		**(2,43**

Net change in restricted cash	**(5**
Net change in short-term investments	**(57**
Other, net	**5**
Net cash provided by investing activities	**3**
Cash flows from financing activities:	
Proceeds from (payments for)	
Policyholder contract deposits	**4,8**
Policyholder contract withdrawals	**(3,17**
Issuance of long-term debt	**3,2**
Repayments of long-term debt	**(95**
Purchase of common stock	**(3,48**
Dividends paid	**(36**
Other, net	**3**
Net cash provided by (used in) financing activities	**4**
Effect of exchange rate changes on cash	
Net increase (decrease) in cash	**(13**
Cash at beginning of year	**1,6**
Change in cash of businesses held-for-sale	
Cash at end of period	**$ 1,4**

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:				
Interest	**$**	**362**	$	307
Taxes	**$**	**39**	$	140
Non-cash investing/financing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**913**	$	937

See accompanying Notes to Condensed Consolidated Financial Statements.

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

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

Interim-period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2016 and prior to the issuance of these Condensed Consolidated Financial Statements.

Sale of ILFC

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

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

TABLE OF CONTENTS

Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Use of Estimates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2016

Accounting for Share-Based Payments with Performance Targets

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

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

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.

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Consolidation: Amendments to the Consolidation Analysis

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

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

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

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

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

Simplifying the Presentation of Debt Issuance Costs

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

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

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

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

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

share practical expedient. In addition, the amendment removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share as a practical expedient.

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

Future Application of Accounting Standards

Revenue Recognition

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2017 and may be applied retrospectively or through a cumulative effect adjustment to retained earnings at the date of adoption. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. We plan to adopt the standard on its required effective date of January 1, 2018 and are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

Short Duration Insurance Contracts

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

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

TABLE OF CONTENTS

Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Leases

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

The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted using a modified retrospective approach. We expect to adopt this guidance when effective and are currently assessing the impact of the standard on our consolidated financial condition, results of operations and 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 revenues and pre tax operating income (loss). Pre-tax operating income (loss) is derived by excluding certain items from net income (loss) attributable to AIG. See the table below for the items excluded from pre-tax operating income (loss).

TABLE OF CONTENTS

Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present our operations by reportable segment:

Three Months Ended March 31,	**2016**		
(in millions)	Total Revenues	Pre-Tax Operating Income (Loss)	T Revenu
Commercial Insurance			
Property Casualty	$ 5,278	$ 720	$ 5,
Mortgage Guaranty	261	163	
Institutional Markets	619	6	
Total Commercial Insurance	6,158	889	6,
Consumer Insurance			
Retirement	2,114	461	2,
Life	1,597	105	1,
Personal Insurance	2,821	222	2,
Total Consumer Insurance	6,532	788	6,
Corporate and Other*	206	(733)	1,
AIG Consolidation and elimination	(159)	10	(1
Total AIG Consolidated revenues and pre-tax operating income	$ 12,737	$ 954	$ 14,
Reconciling Items from pre-tax operating income to pre-tax income (loss) :			
Changes in fair value of securities used to hedge guaranteed living benefits	133	133	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	40	
Other income (expense) - net	-	7	
Loss on extinguishment of debt	-	(83)	
Net realized capital gains	(1,106)	(1,106)	1,
Income from divested businesses	-	(2)	
Non-operating litigation reserves and settlements	34	31	
Reserve development related to non-operating run-off insurance business	-	-	
Restructuring and other costs	-	(188)	
Other	(19)	-	
Pre-tax income (loss)	$ 11,779	$ (214)	$ 15,

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

12

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

13

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

March 31, 2016 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[b]	Cash Collateral	
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 7	$ 2,034	$ -	$ -	$ -	$
Obligations of states, municipalities and political subdivisions	-	25,562	2,196	-	-	2
Non-U.S. governments	708	17,877	30	-	-	1
Corporate debt	-	137,924	1,024	-	-	13
RMBS	-	20,060	16,162	-	-	3
CMBS	-	12,069	2,368	-	-	1
CDO/ABS	-	9,172	6,592	-	-	1
Total bonds available for sale	715	224,698	28,372	-	-	25
Other bond securities:						
U.S. government and government sponsored entities	30	3,373	-	-	-	
Obligations of states, municipalities and political subdivisions	-	-	-	-	-	
Non-U.S. governments	-	53	-	-	-	
Corporate debt	-	1,861	18	-	-	
RMBS	-	440	1,513	-	-	
CMBS	-	517	170	-	-	
CDO/ABS	-	793	6,576	-	-	
Total other bond securities	30	7,037	8,277	-	-	1
Equity securities available for sale:						
Common stock	2,274	-	-	-	-	
Preferred stock	23	-	-	-	-	
Mutual funds	471	2	-	-	-	
Total equity securities available for sale	2,768	2	-	-	-	
Other equity securities	862	-	15	-	-	
Mortgage and other loans receivable	-	-	11	-	-	
Other invested assets[a]	1	32	263	-	-	
Derivative assets:						

Interest rate contracts	-	4,391	14	-	-	
Foreign exchange contracts	-	877	-	-	-	
Equity contracts	123	69	51	-	-	
Commodity contracts	-	-	-	-	-	
Credit contracts	-	-	3	-	-	
Other contracts	-	1	21	-	-	
Counterparty netting and cash collateral	-	-	-	(2,023)	(2,036)	(4
Total derivative assets	123	5,338	89	(2,023)	(2,036)	
Short-term investments	1,367	1,101	-	-	-	
Separate account assets	74,470	5,062	-	-	-	7
Total	$ 80,336	$243,270	$ 37,027	$ (2,023)	$(2,036)	$35

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Liabilities:						
Policyholder contract deposits	$ -	$ 39	$ 3,251	$ -	$ -	$ 3,290
Other policyholder funds	6	-	-	-	-	6
Derivative liabilities:						
Interest rate contracts	-	3,048	62	-	-	3,110
Foreign exchange contracts	4	1,371	9	-	-	1,384
Equity contracts	-	30	-	-	-	30
Commodity contracts	-	-	-	-	-	-
Credit contracts	-	-	493	-	-	493
Other contracts	-	-	142	-	-	142
Counterparty netting and cash collateral	-	-	-	(2,023)	(992)	(3,015)
Total derivative liabilities	4	4,449	706	(2,023)	(992)	2,144
Long-term debt	-	3,718	184	-	-	3,902
Other liabilities	134	41	-	-	-	175
Total	$ 144	$ 8,247	$ 4,141	$ (2,023)	$ (992)	$ 9,517

December 31, 2015 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting(a)	Cash Collateral(b)	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ -	$ 1,844	$ -	$ -	$ -	$ 1,844
Obligations of states, municipalities and political subdivisions	-	25,199	2,124	-	-	27,323
Non-U.S. governments	683	17,480	32	-	-	18,195
Corporate debt	-	134,618	1,370	-	-	135,988
RMBS	-	19,690	16,537	-	-	36,227
CMBS	-	10,986	2,585	-	-	13,571
CDO/ABS	-	8,928	6,169	-	-	15,097
Total bonds available for sale	683	218,745	28,817	-	-	248,245
Other bond securities:						
U.S. government and government sponsored entities	-	3,369	-	-	-	3,369
Obligations of states, municipalities and political subdivisions	-	75	-	-	-	75
Non-U.S. governments	-	50	-	-	-	50
Corporate debt	-	2,018	17	-	-	2,035
RMBS	-	649	1,581	-	-	2,230
CMBS	-	557	193	-	-	750
CDO/ABS	-	1,218	7,055	-	-	8,273
Total other bond securities	-	7,936	8,846	-	-	16,782
Equity securities available for sale:						

Common stock	2,401	-	-	-	-	2,401
Preferred stock	22	-	-	-	-	22
Mutual funds	491	1	-	-	-	492
Total equity securities available for sale	2,914	1	-	-	-	2,915
Other equity securities	906	1	14	-	-	921
Mortgage and other loans receivable	-	-	11	-	-	11
Other invested assets[(a)]	2	1	332	-	-	335

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative assets:						
Interest rate contracts	-	3,150	12	-	-	3,162
Foreign exchange contracts	-	766	-	-	-	766
Equity contracts	91	32	54	-	-	177
Commodity contracts	-	-	-	-	-	-
Credit contracts	-	-	3	-	-	3
Other contracts	-	2	21	-	-	23
Counterparty netting and cash collateral	-	-	-	(1,268)	(1,554)	(2,822)
Total derivative assets	91	3,950	90	(1,268)	(1,554)	1,309
Short-term investments	1,416	1,175	-	-	-	2,591
Separate account assets	73,699	5,875	-	-	-	79,574
Total	$ 79,711	$ 237,684	$ 38,110	$ (1,268)	$ (1,554)	$ 352,683
Liabilities:						
Policyholder contract deposits	$ -	$ 36	$ 2,289	$ -	$ -	$ 2,325
Other policyholder funds	6	-	-	-	-	6
Derivative liabilities:						
Interest rate contracts	-	2,137	62	-	-	2,199
Foreign exchange contracts	-	1,197	7	-	-	1,204
Equity contracts	-	68	-	-	-	68
Commodity contracts	-	-	-	-	-	-
Credit contracts	-	-	508	-	-	508
Other contracts	-	-	69	-	-	69
Counterparty netting and cash collateral	-	-	-	(1,268)	(760)	(2,028)
Total derivative liabilities	-	3,402	646	(1,268)	(760)	2,020
Long-term debt	-	3,487	183	-	-	3,670
Other liabilities	-	62	-	-	-	62
Total	$ 6	$ 6,987	$ 3,118	$ (1,268)	$ (760)	$ 8,083

(a) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled $7.7 billion and $8.6 billion as of March 31, 2016 and December 31, 2015, respectively.

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

Transfers of Level 1 and Level 2 Assets and Liabilities

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

During the three-month periods ended March 31, 2016 and 2015, we transferred $83 million and $72 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-month period ended March 31, 2015, we transferred $115 million of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2; there were no such transfers during the three-month period ended March 31, 2016. We had no material transfers from Level 2 to Level 1 during the three-month periods ended March 31, 2016 and 2015.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-month periods ended March 31, 2016 and 2015 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at March 31, 2016 and 2015:

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net
Three Months Ended March 31, 2016				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 2,124	$ -	$ 58	$ 14
Non-U.S. governments	32	-	(2)	-
Corporate debt	1,370	1	(24)	29
RMBS	16,537	245	(420)	(233)
CMBS	2,585	42	(88)	(81)
CDO/ABS	6,169	12	(50)	438
Total bonds available for sale	28,817	300	(526)	167
Other bond securities:				
Corporate debt	17	1	-	-
RMBS	1,581	(37)	-	(13)
CMBS	193	(2)	-	(21)
CDO/ABS	7,055	(133)	-	(411)
Total other bond securities	8,846	(171)	-	(445)
Equity securities available for sale:				
Common stock	-	-	-	-
Total equity securities available for sale	-	-	-	-
Other equity securities	14	1	-	-
Mortgage and other loans receivable	11	-	-	-
Other invested assets	332	11	(5)	(21)

Total	$ 38,020	$ 141	$ (531)	$ (299)	$ 2

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gros Transfe
Three Months Ended March 31, 2016					
Liabilities:					
Policyholder contract deposits	$ 2,289	$ 845	$ -	$ 117	$
Derivative liabilities, net:					
Interest rate contracts	50	4	-	(6)	
Foreign exchange contracts	7	1	-	1	
Equity contracts	(54)	4	-	(1)	
Commodity contracts	-	-	-	-	
Credit contracts	505	(6)	-	(9)	
Other contracts	48	54	-	19	
Total derivative liabilities, net[(a)]	556	57	-	4	
Long-term debt[(b)]	183	2	-	(1)	
Total	$ 3,028	$ 904	$ -	$ 120	$

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe
Three Months Ended March 31, 2015					
Assets:					
Bonds available for sale:					
Obligations of states, municipalities and political subdivisions	$ 2,159	$ 1	$ 45	$ 65	$
Non-U.S. governments	30	-	-	4	
Corporate debt	1,883	-	17	(61)	4
RMBS	16,805	258	(72)	354	
CMBS	2,696	24	10	30	
CDO/ABS	6,110	33	29	402	
Total bonds available for sale	29,683	316	29	794	4
Other bond securities:					
Corporate debt	-	-	-	-	
RMBS	1,105	(19)	-	204	2
CMBS	369	-	-	(100)	
CDO/ABS	7,449	132	-	(238)	5
Total other bond securities	8,923	113	-	(134)	6
Equity securities available for sale:					
Common stock	1	-	-	-	
Total equity securities available for sale	1	-	-	-	
Other equity securities	-	-	-	-	2
Mortgage and other loans receivable	6	-	-	-	
Other invested assets	1,042	410	(492)	(538)	
Total	$ 39,655	$ 839	$ (463)	$ 122	$ 6

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized (Gains) Losses Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gro Transfe

Three Months Ended March 31, 2015								
Liabilities:								
Policyholder contract deposits	$	1,509	$	275	$	-	$	51	$
Derivative liabilities, net:								
Interest rate contracts		74		4		-		(9)
Foreign exchange contracts		8		(1)		-		1
Equity contracts		(47)		(8)		-		(11)
Commodity contracts		-		-		-		-
Credit contracts		978		(147)		-		(40)
Other contracts		59		(14)		(2)		16
Total derivative liabilities, net[(a)]		1,072		(166)		(2)		(43)
Long-term debt[(b)]		213		(15)		-		(12)
Total	$	2,794	$	94	$	(2)	$	(4)	$

(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.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
Three Months Ended March 31, 2016				
Bonds available for sale	**$ 298**	**$ 1**	**$ 1**	**$ 300**
Other bond securities	**(34)**	**-**	**(137)**	**(171)**
Other equity securities	**1**	**-**	**-**	**1**
Other invested assets	**(2)**	**51**	**(38)**	**11**
Three Months Ended March 31, 2015				
Bonds available for sale	$ 311	$ (9)	$ 14	$ 316
Other bond securities	18	6	89	113
Other invested assets	(7)	417	-	410

(in millions)	Net Investment Income	Net Realized Capital (Gains) Losses	Other Income	Total
Three Months Ended March 31, 2016				
Policyholder contract deposits	**-**	**845**	**-**	**845**
Derivative liabilities, net	**-**	**4**	**53**	**57**
Long-term debt	**-**	**-**	**2**	**2**
Three Months Ended March 31, 2015				
Policyholder contract deposits	-	275	-	275
Derivative liabilities, net	(19)	(6)	(141)	(166)
Long-term debt	-	-	(15)	(15)

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above, for the three-month periods ended March 31, 2016 and 2015 related to Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets:

(in millions)	Purchases	Sales	Settlements	Purch Sales, Issue Settlements,
Three Months Ended March 31, 2016				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 29**	**$ -**	**$ (15)**	**$**
Non-U.S. governments	**1**	**-**	**(1)**	
Corporate debt	**29**	**-**	**-**	
RMBS	**503**	**(58)**	**(678)**	
CMBS	**102**	**(31)**	**(152)**	
CDO/ABS	**539**	**-**	**(101)**	
Total bonds available for sale	**1,203**	**(89)**	**(947)**	
Other bond securities:				
RMBS	**63**	**(26)**	**(50)**	
CMBS	**53**	**(71)**	**(3)**	
CDO/ABS	**8**	**(17)**	**(402)**	
Total other bond securities	**124**	**(114)**	**(455)**	
Equity securities available for sale	**-**	**-**	**-**	
Equity securities trading	**14**	**-**	**(14)**	
Other invested assets	**9**	**-**	**(30)**	
Total assets	**$ 1,350**	**$ (203)**	**$ (1,446)**	**$**
Liabilities:				
Policyholder contract deposits	**$ -**	**$ 130**	**$ (13)**	**$**
Derivative liabilities, net	**(2)**	**-**	**6**	
Long-term debt[(b)]	**-**	**-**	**(1)**	
Total liabilities	**$ (2)**	**$ 130**	**$ (8)**	**$**
Three Months Ended March 31, 2015				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 107	$ (22)	$ (20)	$
Non-U.S. governments	6	-	(2)	
Corporate debt	6	(50)	(17)	

RMBS		961		(22)		(585)	
CMBS		72		(27)		(15)	
CDO/ABS		579		(23)		(154)	
Total bonds available for sale		1,731		(144)		(793)	
Other bond securities:							
RMBS		245		(6)		(35)	
CMBS		-		(36)		(64)	
CDO/ABS		214		(40)		(412)	
Total other bond securities		459		(82)		(511)	
Equity securities available for sale		-		-		-	
Other invested assets		69		(585)		(22)	
Total assets	$	2,259	$	(811)	$	(1,326)	$
Liabilities:							
Policyholder contract deposits	$	-	$	73	$	(22)	$
Derivative liabilities, net		(15)		-		(28)	
Long-term debt[(b)]		-		-		(12)	
Total liabilities	$	(15)	$	73	$	(62)	$

(a) There were no issuances during the three-month periods ended March 31, 2016 and 2015, respectively.

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2016 and 2015 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

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 $13 million of net losses and $18 million of net gains related to assets and liabilities transferred into Level 3 during the three-month periods ended March 31, 2016 and 2015, respectively, and includes $45 million of net losses and $3 million of net gains related to assets and liabilities transferred out of Level 3 during the three-month periods ended March 31, 2016 and 2015, respectively.

Transfers of Level 3 Assets

During the three-month periods ended March 31, 2016 and 2015, transfers into Level 3 assets primarily included certain investments private placement corporate debt, RMBS and CDO/ABS. Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity. The transfers of investments in RMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types.

During the three-month periods ended March 31, 2016 and 2015, transfers out of Level 3 assets primarily included private placement and other corporate debt, CMBS, CDO/ABS, RMBS and certain investments in municipal securities. Transfers of certain investments municipal securities, corporate debt, RMBS, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers of certain investments in private placement corporate debt and certain ABS out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three-month periods ended March 31, 2016 and 2015.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Quantitative Information About Level 3 Fair Value Measurements

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

(in millions)		Fair Value at March 31, 2016	Valuation Technique	Unobservable Input[b]	Range (Weighted Average)
Assets:					
Obligations of states, municipalities and political subdivisions	$	1,330	Discounted cash flow	Yield	3.87% - 4.74% (4.31%)
Corporate debt		884	Discounted cash flow	Yield	3.50% - 9.37% (6.43%)
RMBS[a]		13,110	Discounted cash flow	Constant prepayment rate	1.29% - 8.81% (5.05%)
				Loss severity	51.03% - 79.95% (65.49%)
				Constant default rate	3.91% - 8.89% (6.40%)
				Yield	3.45% - 6.09% (4.77%)
CDO/ABS[a]		6,845	Discounted cash flow	Yield	4.05% - 6.81% (5.43%)
CMBS		2,187	Discounted cash flow	Yield	

				1.08% - 13.15% (7.12%)
Liabilities:				
Embedded derivatives within Policyholder contract deposits:				
GMWB and GMAB	**2,097**	Discounted cash flow	Equity volatility	15.00% - 50.00%
			Base lapse rate	1.00% - 17.00%
			Dynamic lapse rate	0.20% - 25.50%
			Mortality multiplier[(c)]	80.00% - 104.27%
			Utilization rate	0.00% - 70.00%
			Equity / interest-rate correlation	20.00% - 40.00%
Index Annuities	**824**	Discounted cash flow	Lapse rate	0.75% - 66.00%
			Mortality multiplier[(c)]	50.00% - 75.00%
Indexed Life	**342**	Discounted cash flow	Equity volatility	13.25% to 22.00%
			Base lapse rate	2.00% to 19.00%
			Mortality rate	0.00% to 40.00%

22

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Sensitivity to Changes in Unobservable Inputs

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

Obligations of States, Municipalities and Political Subdivisions

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

Corporate Debt

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

RMBS and CDO/ABS

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CMBS

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

Embedded derivatives within Policyholder contract deposits

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

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

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

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

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

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

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

		March 31, 2016		December 31, 2015	
(in millions)	Investment Category Includes	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using NAV Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 1,683**	**$ 453**	$ 1,774	$ 436
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**272**	**217**	306	213
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an	**105**	**35**	107	41

	eventual realization event, such as an initial public offering or sale of the company				
Distressed	Securities of companies that are in default, under bankruptcy protection, or troubled	**142**	**42**	146	41
Other	Includes multi-strategy, mezzanine and other strategies	**277**	**267**	298	239
Total private equity funds		**2,479**	**1,014**	2,631	970
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**943**	**-**	1,194	-
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**2,647**	**28**	2,978	25
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**556**	**-**	555	-
Distressed	Securities of companies that are in default, under bankruptcy protection or troubled	**632**	**7**	699	8
Emerging markets	Investments in the financial markets of developing countries	**293**	**-**	353	-
Other	Includes multi-strategy, relative value and other strategies	**150**	**-**	167	-
Total hedge funds		**5,221**	**35**	5,946	33
Total		**$ 7,700**	**$ 1,049**	$ 8,577	$ 1,003

Private equity fund investments included above are not redeemable, because distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10 year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one- or two year increments. At March 31, 2016, assuming average original expected lives of 10 years for the funds, 79 percent of the total fair value using NAV per share (or its equivalent) presented above would have expected remaining lives of three years or less, 10 percent between four and six years and 11 percent between seven and 10 years.

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The hedge fund investments included above are generally redeemable monthly (13 percent), quarterly (47 percent), semi annually (10 percent) and annually (30 percent), with redemption notices ranging from one day to 180 days. At March 31, 2016, however, investments representing approximately 73 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 2017. 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 or losses recorded related to the eligible instruments for which we elected the fair value option:

Three Months Ended March 31,	Gain (Loss)			
(in millions)		**2016**		2015
Assets:				
Bond and equity securities	**$**	**50**	$	141
Alternative investments[(a)]		**(247)**		145
Other, including Short-term investments		**-**		2
Liabilities:				
Long-term debt[(b)]		**(176)**		(76)
Other liabilities		**-**		(3)
Total gain (loss)	**$**	**(373)**	$	209

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

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

We recognized gains of $5 million and $6 million during the three-month periods ended March 31, 2016 and 2015, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

	March 31, 2016			December 31, 2015		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 11**	**$ 8**	**$ 3**	$ 11	$ 9	$ 2
Liabilities:						
Long-term debt*	**$ 3,902**	**$ 2,800**	**$ 1,102**	$ 3,670	$ 2,675	$ 995

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

27

TABLE OF CONTENTS

Item 1 / NOTE 4. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Fair Value Measurements on a Non-Recurring Basis

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended March 31,	
(in millions)	Level 1	Level 2	Level 3	Total	**2016**	2015
March 31, 2016						
Other investments	**$ -**	**$ -**	**$ 563**	**$ 563**	**$ 2**	$ 25
Investments in life settlements	**-**	**-**	**405**	**405**	**157**	70
Other assets	**-**	**-**	**9**	**9**	**-**	4
Total	**$ -**	**$ -**	**$ 977**	**$ 977**	**$ 159**	$ 99
December 31, 2015						
Other investments	$ -	$ -	$ 1,117	$ 1,117		
Investments in life settlements	-	-	828	828		
Other assets	-	-	129	129		
Total	$ -	$ -	$ 2,074	$ 2,074		

Fair Value Information About Financial Instruments Not Measured at Fair Value

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
March 31, 2016					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 134**	**$ 31,838**	**$ 31,972**	**$ 30,665**
Other invested assets	**-**	**524**	**2,854**	**3,378**	**4,083**
Short-term investments	**-**	**8,446**	**-**	**8,446**	**8,446**
Cash	**1,499**	**-**	**-**	**1,499**	**1,499**
Liabilities:					

Policyholder contract deposits associated with investment-type contracts	**-**	**339**	**120,767**	**121,106**	**110,192**
Other liabilities	**-**	**3,355**	**-**	**3,355**	**3,355**
Long-term debt	**-**	**23,645**	**4,593**	**28,238**	**28,050**
December 31, 2015					
Assets:					
Mortgage and other loans receivable	$ -	$ 198	$ 30,147	$ 30,345	$ 29,554
Other invested assets	-	563	2,880	3,443	4,169
Short-term investments	-	7,541	-	7,541	7,541
Cash	1,629	-	-	1,629	1,629
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	-	309	117,537	117,846	108,788
Other liabilities	-	2,852	-	2,852	2,852
Long-term debt	-	21,686	4,528	26,214	25,579

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

5. INVESTMENTS

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Othe Ter Impa in
March 31, 2016					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 1,835**	**$ 207**	**$ (1)**	**$ 2,041**	**$**
Obligations of states, municipalities and political subdivisions	**26,014**	**1,798**	**(54)**	**27,758**	
Non-U.S. governments	**17,676**	**1,119**	**(180)**	**18,615**	
Corporate debt	**132,514**	**8,779**	**(2,345)**	**138,948**	
Mortgage-backed, asset-backed and collateralized:					
RMBS	**34,056**	**2,672**	**(506)**	**36,222**	
CMBS	**13,813**	**722**	**(98)**	**14,437**	
CDO/ABS	**15,822**	**344**	**(402)**	**15,764**	
Total mortgage-backed, asset-backed and collateralized	**63,691**	**3,738**	**(1,006)**	**66,423**	
Total bonds available for sale[(b)]	**241,730**	**15,641**	**(3,586)**	**253,785**	
Equity securities available for sale:					
Common stock	**891**	**1,396**	**(13)**	**2,274**	
Preferred stock	**19**	**4**	**-**	**23**	
Mutual funds	**419**	**56**	**(2)**	**473**	
Total equity securities available for sale	**1,329**	**1,456**	**(15)**	**2,770**	
Total	**$ 243,059**	**$ 17,097**	**$ (3,601)**	**$ 256,555**	**$**
December 31, 2015					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 1,698	$ 155	$ (9)	$ 1,844	$
Obligations of states, municipalities and political subdivisions	26,003	1,424	(104)	27,323	
Non-U.S. governments	17,752	805	(362)	18,195	

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

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

29

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(b) At March 31, 2016 and December 31, 2015, bonds available for sale held by us that were below investment grade or not rated totaled $35.6 billion and $34.9 billion, respectively.

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gr Unreali Los
March 31, 2016						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 2**	**$ -**	**$ 11**	**$ 1**	**$ 13**	**$**
Obligations of states, municipalities and political subdivisions	**550**	**25**	**545**	**29**	**1,095**	
Non-U.S. governments	**1,400**	**52**	**1,212**	**128**	**2,612**	
Corporate debt	**17,937**	**1,053**	**9,297**	**1,292**	**27,234**	**2,**
RMBS	**5,087**	**151**	**4,828**	**355**	**9,915**	
CMBS	**1,340**	**46**	**863**	**52**	**2,203**	
CDO/ABS	**8,208**	**258**	**2,221**	**144**	**10,429**	
Total bonds available for sale	**34,524**	**1,585**	**18,977**	**2,001**	**53,501**	**3,**
Equity securities available for sale:						
Common stock	**69**	**13**	**-**	**-**	**69**	
Mutual funds	**93**	**2**	**-**	**-**	**93**	
Total equity securities available for sale	**162**	**15**	**-**	**-**	**162**	
Total	**$34,686**	**$ 1,600**	**$18,977**	**$ 2,001**	**$53,663**	**$ 3,**
December 31, 2015						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 483	$ 9	$ 1	$ -	$ 484	$
Obligations of states, municipalities and political subdivisions	2,382	87	268	17	2,650	
Non-U.S. governments	4,327	203	832	159	5,159	
Corporate debt	41,317	2,514	5,428	1,473	46,745	3,

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

Transfers of Level 3 Liabilities

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

At March 31, 2016, we held 9,760 and 128 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,931 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 March 31, 2016 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Fixed Maturity Securities Available for Sale

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

March 31, 2016	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	**$ 8,930**	**$ 9,092**	**$ 732**	**$ 723**
Due after one year through five years	**49,341**	**52,088**	**6,357**	**6,084**
Due after five years through ten years	**51,660**	**53,355**	**10,954**	**9,972**
Due after ten years	**68,108**	**72,827**	**15,491**	**14,175**
Mortgage-backed, asset-backed and collateralized	**63,691**	**66,423**	**23,553**	**22,547**
Total	**$ 241,730**	**$ 253,785**	**$ 57,087**	**$ 53,501**
December 31, 2015				
Due in one year or less	$ 9,176	$ 9,277	$ 1,122	$ 1,103
Due after one year through five years	47,230	49,196	9,847	9,494
Due after five years through ten years	54,120	54,459	22,296	20,686
Due after ten years	68,440	70,418	26,235	23,755
Mortgage-backed, asset-backed and collateralized	62,002	64,895	26,271	25,483
Total	$ 240,968	$ 248,245	$ 85,771	$ 80,521

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

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

Three Months Ended March 31, *(in millions)*	**2016** Gross Realized Gains	Gross Realized Losses	2015 Gross Realized Gains	Gross Realized Losses
Fixed maturity securities	**$ 187**	**$ 549**	$ 149	$ 118
Equity securities	**32**	**8**	496	5
Total	**$ 219**	**$ 557**	$ 645	$ 123

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

For the three-month periods ended March 31, 2016 and 2015, respectively, the aggregate fair value of available for sale securities sold was $6.1 billion and $6.9 billion, respectively, which resulted in net realized capital losses of $338 million and net realized capital gains of $522 million, respectively.

Other Securities Measured at Fair Value

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

	March 31, 2016		December 31, 2015	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 3,403	21 %	$ 3,369	19%
Obligations of states, municipalities and political subdivisions	-	-	75	-
Non-U.S. governments	53	-	50	-
Corporate debt	1,879	12	2,035	12
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,953	12	2,230	13
CMBS	687	4	750	4
CDO/ABS and other collateralized*	7,369	46	8,273	47
Total mortgage-backed, asset-backed and collateralized	10,009	62	11,253	64
Total fixed maturity securities	15,344	95	16,782	95
Equity securities	877	5	921	5
Total	$ 16,221	100 %	$ 17,703	100%

* Includes $592 million and $712 million of U.S. Government agency-backed ABS at March 31, 2016 and December 31, 2015, respectively.

Net Investment Income

The following table presents the components of Net investment income:

Three Months Ended March 31,

(in millions)	**2016**	2015
Fixed maturity securities, including short-term investments	**$ 2,936**	$ 2,883
Equity securities	**(22)**	15
Interest on mortgage and other loans	**389**	339
Alternative investments*	**(366)**	586
Real estate	**53**	26
Other investments	**137**	141
Total investment income	**3,127**	3,990
Investment expenses	**114**	152
Net investment income	**$ 3,013**	$ 3,838

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

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Net Realized Capital Gains and Losses

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

Three Months Ended March 31, *(in millions)*	2016	2015
Sales of fixed maturity securities	$ (362)	$ 31
Sales of equity securities	24	491
Other-than-temporary impairments:		
Severity	(2)	(2)
Change in intent	(29)	(24)
Foreign currency declines	(6)	(29)
Issuer-specific credit events	(131)	(68)
Adverse projected cash flows	(36)	(5)
Provision for loan losses	30	24
Foreign exchange transactions	(520)	254
Derivative instruments	(84)	208
Impairments on investments in life settlements	(157)	(70)
Other *	167	531
Net realized capital gains (losses)	$ (1,106)	$ 1,341

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

Change in Unrealized Appreciation (Depreciation) of Investments

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

Three Months Ended March 31, *(in millions)*	2016	2015
Increase (decrease) in unrealized appreciation (depreciation) of investments:		
Fixed maturity securities	$ 4,778	$ 2,156
Equity securities	(95)	(382)
Other investments	(148)	(503)

Total increase (decrease) in unrealized appreciation (depreciation) of investments	**$**	**4,535**	$	1,271

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of our policy for evaluating investments for other-than-temporary impairments, see Note 5 to the Consolidated Financial Statements in the 2015 Annual Report.

33

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Credit Impairments

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

Three Months Ended March 31, *(in millions)*	**2016**	2015
Balance, beginning of year	**$ 1,747**	$ 2,659
Increases due to:		
Credit impairments on new securities subject to impairment losses	**110**	15
Additional credit impairments on previously impaired securities	**55**	22
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(150)**	(42)
Accretion on securities previously impaired due to credit*	**(239)**	(188)
Other	**-**	-
Balance, end of period	**$ 1,523**	$ 2,466

* 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.

Transfers of Level 3 Liabilities

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

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

(in millions)	**At Date of Acquisition**
Contractually required payments (principal and interest)	**$ 33,999**
Cash flows expected to be collected*	**27,609**
Recorded investment in acquired securities	**18,476**

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

34

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	**March 31, 2016**	December 31, 2015
Outstanding principal balance	**$ 17,011**	$ 16,871
Amortized cost	**12,442**	12,303
Fair value	**12,979**	13,164

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

Three Months Ended March 31, *(in millions)*	**2016**	2015
Balance, beginning of period	**$ 6,846**	$ 6,865
Newly purchased PCI securities	**206**	245
Disposals	**-**	-
Accretion	**(214)**	(220)
Effect of changes in interest rate indices	**(299)**	(138)
Net reclassification to/(from) non-accretable difference, including effects of prepayments	**83**	13
Balance, end of period	**$ 6,622**	$ 6,765

Pledged Investments

Secured Financing and Similar Arrangements

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

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

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

(in millions)		**March 31, 2016**		December 31, 2015
Fixed maturity securities available for sale	**$**	**1,455**	$	1,145
Other bond securities, at fair value	**$**	**1,897**	$	1,740

At March 31, 2016 and December 31, 2015, amounts borrowed under repurchase and securities lending agreements totaled $3.4 billion and $2.9 billion, respectively.

35

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
March 31, 2016						
Other bond securities:						
Non-U.S. governments	**$ -**	**$ -**	**$ -**	**$ 52**	**$ -**	**$ 52**
Corporate debt	**-**	**229**	**447**	**1,131**	**-**	**1,807**
Total	**$ -**	**$ 229**	**$ 447**	**$ 1,183**	**$ -**	**$ 1,859**
December 31, 2015						
Bonds available for sale:						
Non-U.S. governments	$ -	$ 50	$ -	$ -	$ -	$ 50
Other bond securities:						
Non-U.S. governments	-	-	-	49	-	49
Corporate debt	-	33	332	1,326	-	1,691
Total	$ -	$ 83	$ 332	$ 1,375	$ -	$ 1,790

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

	Remaining Contractual Maturity of the Agreements					
(in millions)	Overnight and Continuous	up to 30 days	31 - 90 days	91 - 364 days	365 days or greater	Total
March 31, 2016						
Bonds available for sale:						
Non-U.S. governments	**$ -**	**$ -**	**$ -**	**$ 54**	**$ -**	**$ 54**
Corporate debt	**-**	**101**	**674**	**167**	**8**	**950**
RMBS	**-**	**-**	**-**	**451**	**-**	**451**
Other bond securities:						
U.S. government and government sponsored entities	**30**	**-**	**-**	**-**	**-**	**30**
RMBS	**-**	**-**	**-**	**8**	**-**	**8**
Total	**$ 30**	**$ 101**	**$ 674**	**$ 680**	**$ 8**	**$ 1,493**

December 31, 2015						
Bonds available for sale:						
Non-U.S. governments	$ -	$ -	$ 57	$ -	$ -	$ 57
Corporate debt	-	-	914	-	-	914
RMBS	-	-	-	124	-	124
Total	$ -	$ -	$ 971	$ 124	$ -	$ 1,095

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

TABLE OF CONTENTS

Item 1 / NOTE 5. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(in millions)		**March 31, 2016**		December 31, 2015
Securities collateral pledged to us	**$**	**1,282**	$	1,742
Amount sold or repledged by us	**$**	**140**	$	-

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 $4.9 billion at March 31, 2016 and December 31, 2015, respectively.

Other Pledges and Restrictions

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $47 million of stock in FHLBs at both March 31, 2016 and December 31, 2015. In addition, our subsidiaries have pledged securities available for sale with a fair value of $2.1 billion and $1.2 billion at March 31, 2016 and December 31, 2015, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations was approximately $2.4 billion at both March 31, 2016 and December 31, 2015. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

Short-term investments held in escrow accounts or otherwise subject to restriction as to their use were $496 million and $439 million at March 31, 2016 and December 31, 2015, respectively.

6. LENDING ACTIVITIES

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

(in millions)	March 31, 2016	December 31, 2015
Commercial mortgages*	$ 22,159	$ 22,067
Residential mortgages	3,084	2,758
Life insurance policy loans	2,568	2,597
Commercial loans, other loans and notes receivable	3,142	2,451
Total mortgage and other loans receivable	30,953	29,873
Allowance for credit losses	(277)	(308)
Mortgage and other loans receivable, net	$ 30,676	$ 29,565

* Commercial mortgages primarily represent loans for offices, retail properties and apartments, with exposures in New York and California representing the largest geographic concentrations (aggregating approximately 23 percent and 12 percent, respectively, at March 31, 2016, and 22 percent and 12 percent, respectively, at December 31, 2015).

TABLE OF CONTENTS

Item 1 / NOTE 6. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Nonperforming loans are generally those loans where payment of contractual principal or interest is more than 90 days past due. Nonperforming mortgages were not significant for all periods presented.

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

	Number of	Class							Percent of
(dollars in millions)	Loans	Apartments	Offices	Retail	Industrial	Hotel	Others	Total[c]	Total $
March 31, 2016									
Credit Quality Indicator:									
In good standing	**816**	**$ 4,014**	**$ 7,567**	**$ 4,861**	**$ 1,835**	**$ 2,255**	**$ 1,400**	**$ 21,932**	**99%**
Restructured[a]	**5**	**-**	**151**	**18**	**-**	**16**	**-**	**185**	**1**
90 days or less delinquent	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
>90 days delinquent or in process of foreclosure	**8**	**3**	**15**	**-**	**6**	**6**	**12**	**42**	**-**
Total[b]	**829**	**$ 4,017**	**$ 7,733**	**$ 4,879**	**$ 1,841**	**$ 2,277**	**$ 1,412**	**$ 22,159**	**100%**
Allowance for credit losses:									
Specific		**-**	**4**	**1**	**6**	**1**	**-**	**12**	**-**
General		**41**	**47**	**30**	**6**	**18**	**12**	**154**	**1**
Total allowance for credit losses		**$ 41**	**$ 51**	**$ 31**	**$ 12**	**$ 19**	**$ 12**	**$ 166**	**1%**
December 31, 2015									
Credit Quality Indicator:									
In good standing	830	$ 3,916	$ 7,484	$ 4,809	$ 1,902	$ 2,082	$ 1,435	$ 21,628	98%
Restructured[a]	9	-	156	25	6	16	6	209	1
90 days or less delinquent	1	-	-	4	-	-	-	4	-
>90 days delinquent or in process of foreclosure	9	3	205	-	6	-	12	226	1
Total[b]	849	$ 3,919	$ 7,845	$ 4,838	$ 1,914	$ 2,098	$ 1,453	$ 22,067	100%
Allowance for credit losses:									
Specific		-	16	1	6	1	-	24	-
General		35	47	29	8	15	13	147	1
Total allowance for credit losses		$ 35	$ 63	$ 30	$ 14	$ 16	$ 13	$ 171	1%

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings, see Note 6 to the Consolidated Financial Statements in the 2015 Annual Report.

(b) Does not reflect allowance for credit losses.

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

TABLE OF CONTENTS

Item 1 / NOTE 6. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Allowance for Credit Losses

See Note 6 to the Consolidated Financial Statements in the 2015 Annual Report for a discussion of our accounting policy for evaluating Mortgage and other loans receivable for impairment.

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

	2016			2015		
Three Months Ended March 31, *(in millions)*	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	**$ 171**	**$ 137**	**$ 308**	$ 159	$ 112	$ 271
Loans charged off	**(11)**	**-**	**(11)**	-	(1)	(1)
Recoveries of loans previously charged off	**11**	**-**	**11**	4	-	4
Net charge-offs	**-**	**-**	**-**	4	(1)	3
Provision for loan losses	**(5)**	**(26)**	**(31)**	(20)	(4)	(24)
Other	**-**	**-**	**-**	-	-	-
Allowance, end of period	**$ 166 ***	**$ 111**	**$ 277**	$ 143 *	$ 107	$ 250

* Of the total allowance, $12 million and $45 million relate to individually assessed credit losses on $298 million and $131 million of commercial mortgage loans at March 31, 2016 and 2015, respectively.

During the three-month period ended March 31, 2015, loans with a carrying value of $65 million were modified in troubled debt restructurings. No loans were modified in troubled debt restructurings during the three-month period ended March 31, 2016.

7. VARIABLE INTEREST ENTITIES

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

VIE, we evaluate the design of the VIE as well as the related risks the entity was designed to expose the variable interest holders to.

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

TABLE OF CONTENTS

Item 1 / NOTE 7. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Balance Sheet Classification and Exposure to Loss

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

(in millions)	Real Estate and Investment Entities[d]	Securitization Vehicles	Structured Investment Vehicle	Affordable Housing Partnerships	Other	Total
March 31, 2016						
Assets:						
Bonds available for sale	**$ -**	**$ 10,294**	**$ -**	**$ -**	**$ 15**	**$ 10,309**
Other bond securities	**-**	**5,379**	**358**	**-**	**9**	**5,746**
Mortgage and other loans receivable	**1**	**1,743**	**-**	**-**	**125**	**1,869**
Other invested assets	**2,074**	**467**	**-**	**2,846**	**24**	**5,411**
Other [a]	**574**	**918**	**58**	**301**	**159**	**2,010**
Total assets[b]	**$ 2,649**	**$ 18,801**	**$ 416**	**$ 3,147**	**$ 332**	**$ 25,345**
Liabilities:						
Long-term debt	**$ 1,545**	**$ 915**	**$ 52**	**$ 1,636**	**$ 5**	**$ 4,153**
Other [c]	**259**	**194**	**1**	**229**	**146**	**829**
Total liabilities	**$ 1,804**	**$ 1,109**	**$ 53**	**$ 1,865**	**$ 151**	**$ 4,982**
December 31, 2015						
Assets:						
Bonds available for sale	$ -	$ 10,309	$ -	$ -	$ 15	$ 10,324
Other bond securities	-	5,756	387	-	24	6,167
Mortgage and other loans receivable	1	1,960	-	-	132	2,093
Other invested assets	489	477	-	2,608	24	3,598
Other [a]	29	1,349	94	293	159	1,924
Total assets[b]	$ 519	$ 19,851	$ 481	$ 2,901	$ 354	$ 24,106
Liabilities:						
Long-term debt	$ -	$ 1,025	$ 53	$ 1,513	$ 6	$ 2,597
Other[c]	34	236	1	214	71	556
Total liabilities	$ 34	$ 1,261	$ 54	$ 1,727	$ 77	$ 3,153

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

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

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

(d) At March 31, 2016 and December 31, 2015, off-balance sheet exposure primarily consisting of commitments to real estate and investment entities was $113 million and $131 million, respectively.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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
March 31, 2016					
Real estate and investment entities[(d)]	**$ 512,798**	**$ 13,724**	**$ 2,038**		**$ 15,762**
Affordable housing partnerships	**4,992**	**837**	**-**		**837**
Other	**4,367**	**273**	**1,099**	(b)	**1,372**
Total [(c)]	**$ 522,157**	**$ 14,834**	**$ 3,137**		**$ 17,971**
December 31, 2015					
Real estate and investment entities[(d)]	$ 21,951	$ 3,072	$ 398		$ 3,470
Affordable housing partnerships	5,255	774	-		774
Other	1,110	215	1,000	(b)	1,215
Total	$ 28,316	$ 4,061	$ 1,398		$ 5,459

(a) At March 31, 2016 and December 31, 2015, $14.4 billion and $3.8 billion, respectively, of our total unconsolidated VIE assets were recorded as Other invested assets.

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

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

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

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

8. DERIVATIVES AND HEDGE ACCOUNTING

We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations. See Note 10 to the Consolidated Financial Statements in the 2015 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge accounting.

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

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

TABLE OF CONTENTS

Item 1 / NOTE 8. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

	March 31, 2016				December 31, 2015			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Derivatives designated as hedging instruments:[a]								
Interest rate contracts	**$ 512**	**$ 4**	**$ 527**	**$ 3**	$ 301	$ 1	$ 725	$ 2
Foreign exchange contracts	**2,607**	**209**	**1,369**	**65**	2,903	207	914	56
Equity contracts	**-**	**-**	**116**	**13**	-	-	121	23
Derivatives not designated as hedging instruments:[a]								
Interest rate contracts	**62,278**	**4,401**	**36,183**	**3,107**	45,846	3,161	65,733	2,197
Foreign exchange contracts	**8,564**	**668**	**11,325**	**1,319**	9,472	559	8,900	1,148
Equity contracts	**9,648**	**243**	**6,040**	**17**	6,656	177	5,028	45
Commodity contracts	**-**	**-**	**-**	**-**	-	-	-	-
Credit contracts[b]	**4**	**3**	**1,152**	**493**	4	3	1,289	508
Other contracts[c]	**38,550**	**22**	**213**	**142**	37,586	23	203	69
Total derivatives, gross	**$ 122,163**	**$ 5,550**	**$ 56,925**	**$ 5,159**	$ 102,768	$ 4,131	$ 82,913	$ 4,048
Counterparty netting[d]		**(2,023)**		**(2,023)**		(1,268)		(1,268)
Cash collateral[e]		**(2,036)**		**(992)**		(1,554)		(760)
Total derivatives on condensed consolidated balance sheets[f]		**$ 1,491**		**$ 2,144**		$ 1,309		$ 2,020

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

(b) As of March 31, 2016 and December 31, 2015, included super senior multi-sector CDOs with a net notional amount of $1.0 billion and $1.1 billion (fair value liability of $468 million and $483 million), respectively. The expected weighted average maturity as of March 31, 2016 is six years. Because of long-term maturities of the CDSs in the portfolio, we are unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the portfolio. As of March 31, 2016 and December 31, 2015, there were no super senior corporate debt/CLOs remaining.

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

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

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

(f) Freestanding derivatives only, excludes Embedded derivatives. Derivative instrument assets and liabilities are recorded in Other Assets and Liabilities, respectively. Fair value of assets related to bifurcated Embedded derivatives was $0 at both March 31, 2016 and December 31, 2015. Fair value of liabilities related to bifurcated Embedded derivatives was $3.3 billion and $2.3 billion, respectively, at March 31, 2016 and December 31, 2015. A bifurcated Embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets. Embedded derivatives are primarily related to guarantee features in variable annuity products, which include equity and interest rate components.

Collateral

We engage in derivative transactions that are not subject to a clearing requirement directly with unaffiliated third parties, in most cases, under International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements. Many of the ISDA Master Agreements also include Credit Support Annex (CSA) provisions, which provide for collateral postings that may vary at various ratings and threshold levels. We attempt to reduce our risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis. We minimize the risk that counterparties might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value and generally requiring additional collateral to be posted upon the occurrence of certain events or circumstances. In addition, certain derivative transactions have provisions that require collateral to be posted upon a downgrade of our long term debt ratings or give the counterparty the right to terminate the transaction. In the case of some of the derivative transactions, upon a downgrade of our long term debt ratings, as an alternative to posting collateral and subject to certain conditions, we may

TABLE OF CONTENTS

Item 1 / NOTE 8. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 amoun