

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

(State or other jurisdiction of
incorporation or organization)

13-2592361

(I.R.S. Employer
Identification No.)

175 Water Street, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a
smaller reporting company)

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

As of 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

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets (*unaudited*)

(in millions, except for share data)

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2016 - \$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.

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	2015
Revenues:		
Premiums	\$ 8,806	\$ 8,806
Policy fees	687	687
Net investment income	3,013	3,013
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	(209)	(209)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income	7	7
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	(202)	(202)
Other realized capital gains (losses)	(904)	(904)
Total net realized capital gains (losses)	(1,106)	(1,106)
Other income	379	379
Total revenues	11,779	11,779
Benefits, losses and expenses:		
Policyholder benefits and losses incurred	6,387	6,387
Interest credited to policyholder account balances	950	950
Amortization of deferred policy acquisition costs	1,262	1,262
General operating and other expenses	3,003	3,003
Interest expense	306	306
Loss on extinguishment of debt	83	83
Net loss on sale of properties and divested businesses	2	2
Total benefits, losses and expenses	11,993	11,993
Income (loss) from continuing operations before income tax expense (benefit)	(214)	(214)
Income tax expense (benefit)	(58)	(58)
Income (loss) from continuing operations	(156)	(156)
Income (loss) from discontinued operations, net of income tax expense	(47)	(47)
Net income (loss)	(203)	(203)
Less:		
Net income (loss) from continuing operations attributable to noncontrolling interests	(20)	(20)
Net income (loss) attributable to AIG	\$ (183)	\$ (183)

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 \$

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.**CONDENSED Consolidated Statements of Comprehensive Income *(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.

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Item 1 / Financial statements

American International Group, Inc.**CONDENSED CONSOLIDATED Statements of Equity**
(unaudited)

<i>(in millions)</i>	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
<i>See accompanying Notes to Condensed Consolidated Financial Statements.</i>					

TABLE OF CONTENTS**Item 1 / Financial statements****American International Group, Inc.****CONDENSED Consolidated Statements of Cash Flows**
(unaudited)**Three Months Ended March 31,***(in millions)***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.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

Certain of our foreign subsidiaries included in the Condensed Consolidated Financial Statements report on different fiscal-period bases. The effect on our consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these Condensed Consolidated Financial Statements has been 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.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Use of Estimates

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2016

Accounting for Share-Based Payments with Performance Targets

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

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

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.

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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

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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.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Leases

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

The standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted using a modified retrospective approach. We 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).

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The following tables present our operations by reportable segment:

Three Months Ended March 31,

	2016		
<i>(in millions)</i>	Total Revenues	Pre-Tax Operating Income (Loss)	T Reven
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.

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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.

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)***Assets:**

Bonds available for sale:

	Level 1	Level 2	Level 3	Counterparty Netting ^(b)	Cash Collateral
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:					

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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)
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	-	-	-
Total	\$ 80,336	\$243,270	\$ 37,027	\$ (2,023)	\$ (2,036)

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	Cash Collateral	Total
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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:

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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

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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	-	-	-	-	-	-