AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 03, 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 September 30, 2016	**Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Large accelerated filer	Accelerated filer	Non-accelerated filer (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 November 2, 2016, there were 1,027,135,119 shares outstanding of the registrant’s common stock.

AMERICAN INTERNATIONAL GROUP, INC.

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

September 30, 2016

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

American International Group, Inc.

CONDENSED Consolidated Balance Sheets *(unaudited)*

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(in millions, except for share data)

Assets:

Investments:

Fixed maturity securities:

Bonds available for sale, at fair value (amortized cost: 2016 - $241,415; 2015 - $240,968) $

Other bond securities, at fair value (See Note 6)

Equity Securities:

Common and preferred stock available for sale, at fair value (cost: 2016 - $1,167; 2015 - $1,379)

Other common and preferred stock, at fair value (See Note 6)

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 - $7,092; 2015 - $8,912)

Short-term investments (portion measured at fair value: 2016 - $2,724; 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 $196 in 2016 and $170 in 2015

(portion measured at fair value: 2016 - $2,133; 2015 - $1,309)

Separate account assets, at fair value

Assets held for sale

Total assets $

Liabilities:

Liability for unpaid losses and loss adjustment expenses $

Unearned premiums

Future policy benefits for life and accident and health insurance contracts

Policyholder contract deposits (portion measured at fair value: 2016 - $4,049; 2015 - $2,325)

Other policyholder funds (portion measured at fair value: 2016 - $6; 2015 - $6)
Other liabilities (portion measured at fair value: 2016 - $2,894; 2015 - $2,082)
Long-term debt (portion measured at fair value: 2016 - $3,664; 2015 - $3,670)
Separate account liabilities
Liabilities held for sale
Total liabilities
Contingencies, commitments and guarantees (see Note 10)

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 - 863,782,936 shares; 2015 - 712,754,875 shares of common stock
Additional paid-in capital
Retained earnings
Accumulated other comprehensive income
Total AIG shareholders' equity
Non-redeemable noncontrolling interests
Total equity
Total liabilities and equity

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

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

	Three Months Ended September 30,				
(dollars in millions, except per share data)		**2016**		2015	
Revenues:					
Premiums	$	**8,581**	$	8,862	$
Policy fees		**646**		701	
Net investment income		**3,783**		3,206	
Net realized capital gains (losses):					
Total other-than-temporary impairments on available for sale securities		**(58)**		(225)	
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)		**(14)**		(17)	
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)		**(72)**		(242)	
Other realized capital gains (losses)		**(693)**		(100)	
Total net realized capital gains (losses)		**(765)**		(342)	
Other income		**609**		395	
Total revenues		**12,854**		12,822	
Benefits, losses and expenses:					
Policyholder benefits and losses incurred		**7,489**		6,936	
Interest credited to policyholder account balances		**887**		881	
Amortization of deferred policy acquisition costs		**1,018**		1,275	
General operating and other expenses		**2,536**		3,175	
Interest expense		**329**		321	
Loss (gain) on extinguishment of debt		**(14)**		346	
Net (gain) loss on sale of divested businesses		**(128)**		3	
Total benefits, losses and expenses		**12,117**		12,937	
Income (loss) from continuing operations before income tax expense		**737**		(115)	
Income tax expense		**304**		65	
Income (loss) from continuing operations		**433**		(180)	
Income (loss) from discontinued operations, net of income tax expense		**3**		(17)	
Net income (loss)		**436**		(197)	
Less:					
Net income (loss) from continuing operations attributable to noncontrolling interests		**(26)**		34	
Net income (loss) attributable to AIG	$	**462**	$	(231)	$

Income (loss) per common share attributable to AIG:					
Basic:					
Income (loss) from continuing operations	**$**	**0.43**	$	(0.17)	**$**
Income (loss) from discontinued operations	**$**	**-**	$	(0.01)	**$**
Net income (loss) attributable to AIG	**$**	**0.43**	$	(0.18)	**$**
Diluted:					
Income (loss) from continuing operations	**$**	**0.42**	$	(0.17)	**$**
Income (loss) from discontinued operations	**$**	**-**	$	(0.01)	**$**
Net income (loss) attributable to AIG	**$**	**0.42**	$	(0.18)	**$**
Weighted average shares outstanding:					
Basic		**1,071,295,892**		1,279,072,748	
Diluted		**1,102,400,770**		1,279,072,748	
Dividends declared per common share	**$**	**0.320**	$	0.280	**$**

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

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

	Three Months Ended September 30,		Nine Month Ended September 3	
(in millions)	**2016**	2015	**2016**	2
Net income (loss)	**$ 436**	$ (197)	**$2,157**	$ 4,
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**217**	(61)	**(110)**	(1
Change in unrealized appreciation (depreciation) of all other investments	**466**	(857)	**6,302**	(3,3
Change in foreign currency translation adjustments	**111**	(238)	**332**	(7
Change in retirement plan liabilities adjustment	**4**	92	**(4)**	
Other comprehensive income (loss)	**798**	(1,064)	**6,520**	(4,0
Comprehensive income (loss)	**1,234**	(1,261)	**8,677**	
Comprehensive income (loss) attributable to noncontrolling interests	**(26)**	33	**(35)**	
Comprehensive income (loss) attributable to AIG	**$1,260**	$(1,294)	**$8,712**	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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American International Group, Inc.

CONDENSED CONSOLIDATED Statements of Equity *(unaudited)*

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	To
Nine Months Ended September 30, 2016						
Balance, beginning of year	**$ 4,766**	**$ (30,098)**	**$ 81,510**	**$ 30,943**	**$ 2,537**	**$**
Common stock issued under stock plans	**-**	**86**	**(173)**	**-**	**-**	
Purchase of common stock	**-**	**(8,506)**	**-**	**-**	**-**	
Net income (loss) attributable to AIG or noncontrolling interests	**-**	**-**	**-**	**2,192**	**-**	
Dividends	**-**	**-**	**-**	**(1,051)**	**-**	
Other comprehensive income	**-**	**-**	**-**	**-**	**6,520**	
Current and deferred income taxes	**-**	**-**	**19**	**-**	**-**	
Net increase due to acquisitions and consolidations	**-**	**-**	**-**	**-**	**-**	
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	
Other	**-**	**-**	**(75)**	**(7)**	**-**	
Balance, end of period	**$ 4,766**	**$ (38,518)**	**$ 81,281**	**$ 32,077**	**$ 9,057**	**$**
Nine Months Ended September 30, 2015						
Balance, beginning of year	$ 4,766	$ (19,218)	$ 80,958	$ 29,775	$ 10,617	$
Purchase of common stock	-	(7,663)	-	-	-	
Net income attributable to AIG or noncontrolling interests	-	-	-	4,037	-	
Dividends	-	-	-	(687)	-	
Other comprehensive loss	-	-	-	-	(4,060)	
Deferred income taxes	-	-	(7)	-	-	
Net increase due to acquisitions and consolidations	-	-	-	-	-	
Contributions from noncontrolling interests	-	-	-	-	-	
Distributions to noncontrolling interests	-	-	-	-	-	
Other	-	-	484	(3)	-	
Balance, end of period	$ 4,766	$ (26,881)	$ 81,435	$ 33,122	$ 6,557	$

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / Financial statements

American International Group, Inc.

CONDENSED Consolidated Statements of Cash Flows *(unaudited)*

Nine Months Ended September 30, *(in millions)*	2016	201
Cash flows from operating activities:		
Net income	$ 2,157	$ 4,07
(Income) loss from discontinued operations	54	
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	(1,125)	(66
Net (gain) loss on sale of divested businesses	(351)	[illegible]
Losses on extinguishment of debt	76	75
Unrealized (gains) losses in earnings - net	1,396	(55
Equity in (income) loss from equity method investments, net of dividends or distributions	50	(68
Depreciation and other amortization	2,814	3,50
Impairments of assets	872	88
Changes in operating assets and liabilities:		
Insurance reserves	700	(1,61
Premiums and other receivables and payables - net	347	(38
Reinsurance assets and funds held under reinsurance treaties	(1,234)	1,39
Capitalization of deferred policy acquisition costs	(3,598)	(4,37
Current and deferred income taxes - net	962	1,73
Other, net	(1,367)	(1,84
Total adjustments	(458)	(1,83
Net cash provided by operating activities	1,753	2,23
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distributions of:		
Available for sale investments	22,077	20,84
Other securities	3,367	4,89
Other invested assets	5,255	7,01
Maturities of fixed maturity securities available for sale	18,210	18,42
Principal payments received on and sales of mortgage and other loans receivable	4,435	3,29
Purchases of:		
Available for sale investments	(42,572)	(36,33
Other securities	(557)	(1,62
Other invested assets	(2,472)	(2,67
Mortgage and other loans receivable	(7,784)	(6,84

Net change in restricted cash	**(49)**	1,47
Net change in short-term investments	**(855)**	(1,02
Other, net	**1,270**	(77
Net cash provided by investing activities	**325**	6,68
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**13,584**	12,21
Policyholder contract withdrawals	**(9,986)**	(10,80
Issuance of long-term debt	**11,430**	6,44
Repayments of long-term debt	**(7,683)**	(8,34
Purchase of common stock	**(8,506)**	(7,47
Dividends paid	**(1,051)**	(68
Other, net	**915**	(42
Net cash used in financing activities	**(1,297)**	(9,06
Effect of exchange rate changes on cash	**88**	(3
Net increase (decrease) in cash	**869**	(18
Cash at beginning of year	**1,629**	1,75
Cash at end of period	**$ 2,498**	$ 1,56

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:		
Interest	**$ 1,009**	$ 1,112
Taxes	**$ 208**	$ 406
Non-cash investing/financing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 2,691**	$ 2,801
Non-cash consideration received from sale of AerCap	**$ -**	$ 500

See accompanying Notes to Condensed Consolidated Financial Statements.

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

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

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

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

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

Sales of Businesses

NSM

On August 31, 2016, we sold our controlling interest in NSM Insurance Group (NSM), a managing general agent to ABRY Partners, a private equity firm, for consideration of $201 million resulting in a pre-tax gain of approximately $105 million in the third quarter of 2016. We retained an equity interest in a newly formed joint venture and will continue to provide underwriting capacity to NSM, and we retained exclusive renewal rights for certain business written through NSM.

In addition, see Note 4 to the Condensed Consolidated Financial Statements for information regarding recent sales of businesses that are classified as held-for-sale.

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

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Item 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Transaction). The total value of the consideration was based in part on AerCap's closing price per share of $47.01 on May 13, 2014.

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

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.

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Future Application of Accounting Standards

Revenue Recognition

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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. 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.

The standard is effective for annual reporting periods beginning after December 15, 2015 including interim reporting periods thereafter and must be applied retrospectively. While early adoption is permitted, we plan to adopt the standard on its required effective date. The standard requires additional disclosures only and the adoption of the standard will have no effect on our consolidated financial condition, results of operations or cash flows. 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.

Recognition and Measurement of Financial Assets and Financial Liabilities

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

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

Leases

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

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

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Item 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Derivative Contract Novations

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

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

Contingent Put and Call Options in Debt Instruments

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

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

Simplifying the Transition to the Equity Method of Accounting

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

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

Improvements to Employee Share-Based Payment Accounting

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Calculation of Credit Losses

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

The standard is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted for annual and interim periods after December 15, 2018. We are assessing the impact of the standard on our consolidated financial condition, results of operations and cash flows.

Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows

In August 2016, the FASB issued an accounting standard that provides guidance on the classification in the Statement of Cash Flows for the following eight specific cash flow issues: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle.

The standard is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted including interim periods with adjustments reflected as of the beginning of the fiscal year that includes that interim period. Early adoption must include all amendments in the same period. We are assessing the impact of the standard on our consolidated 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.

Prior to the third quarter of 2016, we presented United Guaranty and Institutional Markets as operating segments of Commercial Insurance. Beginning in the third quarter of 2016, in order to align our financial reporting with the manner in which our chief operating decision makers review the businesses to assess performance and make decisions about resources to be allocated, United Guaranty and Institutional Markets are presented in the Corporate and Other category for all periods presented. As a result, Commercial Insurance operations now consist of our commercial property and casualty business.

As a result of the transaction agreement discussed in Note 4 to the Condensed Consolidated Financial Statements, the associated assets and liabilities of United Guaranty Corporation (UGC or United Guaranty) have been classified as held-for-sale at September 30, 2016.

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In the second quarter of 2015, a United Guaranty subsidiary and certain of our property casualty companies entered into a 50 percent quota share arrangement whereby the United Guaranty subsidiary (1) ceded 50 percent of the risk relating to policies written in 2014 that were current as of January 1, 2015 and (2) ceded 50 percent of the risk relating to all policies written in 2015 and 2016, each in exchange for a 30 percent ceding commission and reimbursements of 50 percent of the losses and loss adjustment expenses incurred on covered policies. Beginning in the third quarter of 2016, the effects of these intercompany reinsurance arrangements are included in the results of Commercial Insurance and Corporate and Other for all periods presented. Previously, these arrangements were eliminated for purposes of segment reporting.

Prior periods have been revised to conform to the current period presentation for the above segment changes.

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

The following tables present our operations by reportable segment:

	2016		
Three Months Ended September 30,	Total	Pre-Tax Operating	
(in millions)	Revenues	Income (Loss)	Reve
Commercial Insurance	$ 5,460	$ 729	$
Consumer Insurance			
Retirement	2,084	1,108	
Life	1,662	98	
Personal Insurance	2,982	178	
Total Consumer Insurance	6,728	1,384	
Corporate and Other*	1,557	(522)	
AIG consolidation and elimination	(149)	21	
Total AIG consolidated operating revenues and pre-tax operating income	13,596	1,612	1
Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income (loss):			
Changes in fair values of securities used to hedge guaranteed living benefits	17	17	
Changes in benefit reserves and DAC, VOBA and SIA related to			

net realized capital gains		-	(67)
Other income - net		-	3
Loss on extinguishment of debt		-	14
Net realized capital gains		(765)	(765)
Income (loss) from divested businesses		-	128
Non-operating litigation reserves and settlements		1	5
Reserve development related to non-operating run-off insurance business		-	-
Restructuring and other costs		-	(210)
Other		5	-
Revenues and pre-tax income (loss)	$	12,854$	737$ 1

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Item 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

	2016		
Nine Months Ended September 30,	Total	Pre-Tax Operating	
(in millions)	Revenues	Income (Loss)	Reve
Commercial Insurance	$ 16,376	$ 2,306	$ 1
Consumer Insurance			
Retirement	6,407	2,310	
Life	4,949	387	
Personal Insurance	8,718	579	
Total Consumer Insurance	20,074	3,276	2
Corporate and Other*	3,959	(1,411)	
AIG consolidation and elimination	(507)	15	
Total AIG consolidated operating revenues and pre-tax operating income	39,902	4,186	4
Reconciling items from Total revenues and Pre-tax operating income (loss) to revenues and pre-tax income (loss):			
Changes in fair values of securities used to hedge guaranteed living benefits	270	270	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	-	(91)	
Other income - net	-	15	
Loss on extinguishment of debt	-	(76)	
Net realized capital gains (losses)	(829)	(829)	
Income (loss) from divested businesses	-	351	
Non-operating litigation reserves and settlements	42	43	
Reserve development related to non-operating run-off insurance business	-	-	
Restructuring and other costs	-	(488)	
Other	(28)	-	
Revenues and pre-tax income	$ 39,357	$ 3,381	$ 4

* Corporate and Other includes income from assets held by AIG Parent and other corporate subsidiaries and results from United Guaranty and Institutional Markets.

4. HELD-FOR-SALE CLASSIFICATION

Held-For-Sale Classification

We report a business as held-for-sale when management has approved the sale or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized.

Assets and liabilities related to the businesses classified as held for sale are separately reported in our Condensed Consolidated Balance Sheets beginning in the period in which the business is classified as held-for-sale.

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Item 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

At September 30, 2016, held-for-sale assets and liabilities comprise the following:

United Guaranty

On August 15, 2016, we entered into a definitive agreement to sell our 100 percent interest in UGC and certain related affiliates to Arch Capital Group Ltd. (Arch) for total consideration of $3.4 billion, consisting of $2.2 billion of cash, up to $250 million of newly issued Arch perpetual preferred stock, with terms similar to Arch's outstanding Series C preferred stock, and approximately $975 million of newly issued Arch convertible non-voting common-equivalent preferred stock.

The closing of the transaction is subject to certain conditions, including obtaining the requisite regulatory approvals or non-disapprovals and other customary closing conditions.

In lieu of receiving the perpetual preferred stock, we have elected to receive $250 million in pre-closing dividends from UGC. Total consideration for the transaction is expected to be $3.4 billion. In the second quarter of 2015, a United Guaranty subsidiary and certain of our property casualty companies entered into a 50 percent quota share arrangement whereby the United Guaranty subsidiary (1) ceded 50 percent of the risk relating to policies written in 2014 that were current as of January 1, 2015 and (2) ceded 50 percent of the risk relating to all policies written in 2015 and 2016, each in exchange for a 30 percent ceding commission and reimbursements of 50 percent of the losses and loss adjustment expenses incurred on covered policies. Beginning in the third quarter of 2016, the effects of these intercompany reinsurance arrangements are included in the results of Commercial Insurance and Corporate and Other for all periods presented. Previously, these arrangements were eliminated for purposes of segment reporting.

Ascot

On September 16, 2016, we entered into an agreement to sell our interest in Ascot Underwriting Holdings Ltd. (AUHL) and related syndicate-funding subsidiary Ascot Corporate Name Ltd. (ACNL) (together Ascot) to Canada Pension Plan Investment Board (CPPIB). Total consideration for the transaction is $1.1 billion inclusive of CPPIB's recapitalization of Syndicate 1414 Funds at Lloyd's (FAL) capital requirements. We expect to receive approximately $240 million in net cash proceeds from the transaction after the FAL recapitalization and release of the AIG-guaranteed letter of credit currently supporting the syndicate's FAL. Such proceeds reflect AIG's 20 percent stake in AUHL and ownership of ACNL.

Consummation of the transaction is subject to customary closing conditions, including regulatory and other approvals.

Real Estate Investments

Certain real estate investments, including consolidated investment vehicles, met the criteria to be reported as held for sale and are included in the table below.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table summarizes the components of assets and liabilities held-for-sale on the Condensed Consolidated Balance Sheets at September 30, 2016:

(in millions)		September 30, 2016
Assets:		
Fixed maturity securities	$	4,233
Mortgage and other loans receivable, net		1
Other invested assets		1,006
Short-term investments		212
Cash		80
Premiums and other receivables, net of allowance		357
Deferred policy acquisition costs		179
Other assets		593
Total assets held for sale	$	6,661
Liabilities:		
Liability for unpaid losses and loss adjustment expenses	$	1,074
Unearned premiums		1,164
Long-term debt		1,160
Other liabilities		511
Total liabilities held for sale	$	3,909

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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

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

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Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

September 30, 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	$ 1	$ 2,222	$ -	$ -	$ -	$
Obligations of states, municipalities and political subdivisions	-	24,287	2,291	-	-	2
Non-U.S. governments	179	20,508	19	-	-	2
Corporate debt	-	140,187	1,017	-	-	14
RMBS	-	20,606	17,209	-	-	3
CMBS	-	12,808	2,265	-	-	1
CDO/ABS	-	9,305	7,745	-	-	1
Total bonds available for sale	180	229,923	30,546	-	-	26
Other bond securities:						
U.S. government and government sponsored entities	140	3,207	-	-	-	
Obligations of states, municipalities and political subdivisions	-	-	-	-	-	
Non-U.S. governments	-	54	-	-	-	
Corporate debt	-	1,955	19	-	-	
RMBS	-	451	1,396	-	-	
CMBS	-	451	159	-	-	
CDO/ABS	-	959	5,981	-	-	
Total other bond securities	140	7,077	7,555	-	-	1
Equity securities available for sale:						
Common stock	1,230	2	-	-	-	
Preferred stock	18	-	-	-	-	
Mutual funds	291	3	-	-	-	
Total equity securities available for sale	1,539	5	-	-	-	
Other equity securities	498	-	-	-	-	
Mortgage and other loans receivable	-	-	11	-	-	
Other invested assets[a]	-	1	256	-	-	
Derivative assets:						

Interest rate contracts	-	4,289	-	-	-	
Foreign exchange contracts	-	1,144	1	-	-	
Equity contracts	118	150	54	-	-	
Credit contracts	-	-	2	-	-	
Other contracts	-	-	22	-	-	
Counterparty netting and cash collateral	-	-	-	(2,289)	(1,358)	(3
Total derivative assets	118	5,583	79	(2,289)	(1,358)	
Short-term investments	1,936	788	-	-	-	
Separate account assets	77,016	5,610	-	-	-	8
Total	$ 81,427	$248,987	$ 38,447	$ (2,289)	$(1,358)	$36

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Item 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Liabilities:						
Policyholder contract deposits	$ -	$ 27	$ 4,022	$ -	$ -	$ 4,049
Other policyholder funds	6	-	-	-	-	6
Derivative liabilities:						
Interest rate contracts	-	3,667	52	-	-	3,719
Foreign exchange contracts	-	1,400	10	-	-	1,410
Equity contracts	-	2	-	-	-	2
Credit contracts	-	-	347	-	-	347
Other contracts	-	-	112	-	-	112
Counterparty netting and cash collateral	-	-	-	(2,289)	(482)	(2,771)
Total derivative liabilities	-	5,069	521	(2,289)	(482)	2,819
Long-term debt	-	3,594	70	-	-	3,664
Other liabilities	75	-	-	-	-	75
Total	$ 81	$ 8,690	$ 4,613	$ (2,289)	$ (482)	$ 10,613

December 31, 2015 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting[b]	Cash Collateral	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

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

(a) Excludes investments that are measured at fair value using the NAV per share (or its equivalent), which totaled $6.8 billion and $8.6 billion as of September 30, 2016 and December 31, 2015, respectively.

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

Transfers of Level 1 and Level 2 Assets and Liabilities

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

During the three- and nine-month periods ended September 30, 2016, we transferred $635 million and $946 million, respectively, of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2016, we transferred $18 million and $34 million, respectively, of securities issued by the U.S. government and government sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2016.

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

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Changes in Level 3 Recurring Fair Value Measurements

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

(in millions)	Fair Value Beginning of Period	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Tra
Three Months Ended September 30, 2016						
Assets:						
Bonds available for sale:						
Obligations of states, municipalities and political subdivisions	**$ 2,313**	**$ 1**	**$ (5)**	**$ 58**	**$ 2**	**$**
Non-U.S. governments	**28**	**(3)**	**(9)**	**3**	**-**	
Corporate debt	**836**	**(4)**	**7**	**(6)**	**267**	
RMBS	**16,779**	**255**	**304**	**(165)**	**36**	
CMBS	**2,295**	**12**	**(5)**	**(1)**	**2**	
CDO/ABS	**7,075**	**7**	**16**	**728**	**-**	
Total bonds available for sale	**29,326**	**268**	**308**	**617**	**307**	
Other bond securities:						
Corporate debt	**18**	**1**	**-**	**-**	**-**	
RMBS	**1,486**	**30**	**-**	**(120)**	**-**	
CMBS	**168**	**6**	**-**	**(15)**	**-**	
CDO/ABS	**6,312**	**175**	**-**	**(506)**	**-**	
Total other bond securities	**7,984**	**212**	**-**	**(641)**	**-**	
Equity securities available for sale:						
Common stock	**-**	**-**	**-**	**-**	**-**	
Total equity securities available for sale	**-**	**-**	**-**	**-**	**-**	
Other equity securities	**14**	**-**	**-**	**(14)**	**-**	

Mortgage and other loans receivable	11	-	-	-	-
Other invested assets	241	(4)	1	18	-
Total	$ 37,576 $	476 $	309 $	(20) $	307 $

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Item 1 / NOTE 5. 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	Gross Transfers In	Gross Transfers Out	Re to
Liabilities:							
Policyholder contract deposits	$ 3,990	$ 65	$ -	$ (33)	$ -	$ -	$
Derivative liabilities, net:							
Interest rate contracts	46	(3)	-	9	-	-	
Foreign exchange contracts	9	1	-	(1)	-	-	
Equity contracts	(52)	(5)	-	3	-		