AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 20, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	
For the fiscal year ended December 31, 2014	**Commission file number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

Securities registered pursuant to Section 12(b) of the Act: See Exhibit 99.02

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes R No £

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No R

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 R 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 R No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. £

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 R	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 Act). Yes £ No R

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $77,972,000,000.

As of February 12, 2015, there were outstanding 1,372,435,893 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2015 Annual Meeting of Shareholders	Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14

AMERICAN INTERNATIONAL GROUP, INC.
ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2014

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Part I

Item 1 / Business

AIG's key strengths include:

World class insurance franchises that are leaders in their categories and are continuing to improve their operating performance;

A diverse mix of businesses with a presence in most international markets;

Effective capital management of the largest shareholders' equity of any insurance company in the world*, supported by enhanced risk management;

Execution of strategic objectives, such as our focus on growth of higher value lines of business to increase profitability and grow assets under management;

Breadth of customers, serving over 89 percent of companies included in the Fortune Global 500; and

Improved profitability, as demonstrated by growth in 2014 over 2013 of pre-tax operating income in our core insurance operations.

* At June 30, 2014, the latest date for which information was available for certain foreign insurance companies.

Item 1 / BUSINESS / AIG

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

business management

On September 1, 2014, in accordance with AIG's previously disclosed succession plan, Peter D. Hancock assumed the role of President and Chief Executive Officer of AIG and joined AIG's Board of Directors. He succeeded Robert H. Benmosche, who retired and currently serves as an advisor to AIG.

With this transition, Mr. Hancock has announced a new leadership team and structure aimed at integrating the Company and positioning us to deliver the full capabilities of AIG to our approximately 90 million clients around the world as One AIG. We believe that by striving to provide the greatest value to our customers, we can deliver improved operating and financial performance and sustainable, profitable growth. Our strategy is focused on enhancing the value and competitive position of our insurance businesses and investing our capital where we can achieve attractive risk-adjusted returns, while maintaining strong levels of liquidity and capital.

In the fourth quarter of 2014, we modified the presentation of our results to reflect our new operating structure. The new operating structure includes two reportable segments, Commercial Insurance and Consumer Insurance, and a Corporate and Other category. Commercial Insurance has three operating segments: Property Casualty, Mortgage Guaranty and Institutional Markets. Consumer Insurance also has three operating segments: Retirement, Life and Personal Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments. Prior to the fourth quarter of 2014, AIG reported its results through two reportable segments – AIG Property Casualty and AIG Life and Retirement.

Certain of our management activities, such as investment management, enterprise risk management, liquidity management and capital management, and our balance sheet reporting, are conducted on a legal entity basis. We group our insurance-related legal entities into two categories: Non-Life Insurance Companies and Life Insurance Companies.

Non-Life Insurance Companies include the following major property casualty and mortgage guaranty companies: National Union Fire Insurance Company of Pittsburgh, Pa.(National Union); American Home Assurance Company (American Home); Lexington Insurance Company (Lexington); Fuji Fire and Marine Insurance Company Limited (Fuji Fire); American Home Assurance Company, Ltd. (American Home Japan); AIG Asia Pacific Insurance, Pte, Ltd.; AIG Europe Limited and United Guaranty Residential Insurance Company (UGRIC).

Life Insurance Companies include the following major operating companies: American General Life Insurance Company (American General Life); The Variable Annuity Life Insurance Company (VALIC); The United States Life Insurance Company in the City of New York (U.S. Life) and AIG Fuji Life Insurance Company Limited (Fuji Life).

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(a) Consists of Commercial Insurance and Consumer Insurance pre-tax operating income. Pre-tax operating income and book value per share excluding AOCI are non-GAAP measures. See “Use of Non-GAAP Measures” for additional information.

(b) Total consideration of approximately $7.6 billion, includes net cash proceeds of $2.4 billion and 97.6 million newly issued AerCap common shares. Based in part on AerCap's closing price per share of $47.01 on May 13, 2014, the date the sale of ILFC to AerCap was completed.

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How we Generate Revenues and Profitability

We earn revenues primarily from insurance premiums, policy fees from universal life insurance and investment products, and income from investments and advisory fees.

Our operating expenses consist of policyholder benefits and losses incurred, interest credited to policyholders, commissions and other costs of selling and servicing our products, and general business expenses.

Our profitability is dependent on our ability to properly price and manage risk on insurance and annuity products, to manage our portfolio of investments effectively, and to control costs through expense discipline.

INVESTMENT ACTIVITIES OF Our Insurance OPERATIONS

Our Non Life Insurance Companies and Life Insurance Companies generally receive premiums and deposits well in advance of paying covered claims or benefits. In the intervening periods, we invest these premiums and deposits to generate net investment income that, along with the invested funds, is available to pay claims or benefits. As a result, we generate significant revenues from insurance investment activities.	*We generate significant revenues in our insurance operations from investment activities.*
Our worldwide insurance investment policy places primary emphasis on investments in corporate bonds, municipal bonds and government bonds in all of our portfolios, and, to a lesser extent, investments in high yield bonds, common stock, real estate, hedge funds and other alternative investments.	

The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

Non-Life Insurance Companies — Fixed maturity securities held by the insurance companies included in the Non-Life Insurance Companies' domestic operations have historically consisted primarily of corporate bonds, municipal bonds and government bonds. These investments provided attractive returns and limited credit risk. To meet our domestic operations' current risk return and business objectives, our domestic Non-Life Insurance Companies have been shifting investment allocations to a broader array of investments, including structured securities, mortgage loans, equity related opportunities and other investments that offer attractive risk-adjusted returns. Our fixed maturity securities must meet our liquidity, duration and quality objectives as well as current capital, risk return and business objectives. Fixed maturity securities held by the Non-Life Insurance Companies' international operations consist primarily of intermediate duration high-grade securities, primarily in the markets being served. In addition, the Non-Life Insurance Companies have redeployed cash in excess of operating needs into investments consistent with the asset classes described above.

Life Insurance Companies — The investment strategy for the portfolios of the Life Insurance Companies is largely to match the duration of our liabilities with assets of comparable duration, to the extent practicable. The Life Insurance Companies primarily invest in a diversified portfolio of fixed maturity securities, which include corporate bonds and structured securities. To further diversify the portfolio, investments are made in alternative investments, including private equity funds, hedge funds and affordable housing partnerships. Although these alternative investments are subject to periodic earnings fluctuations, they have achieved total returns in excess of the Life Insurance Companies' fixed maturity security returns for each of the three years in the period ended December 31, 2014.

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Commercial Insurance is a leading provider of insurance products and services for commercial and institutional customers. It includes one of the world's most far-reaching property casualty networks, a leading mortgage guaranty insurer and an institutional retirement and savings business. Commercial Insurance offers a broad range of products to customers through a diversified, multichannel distribution network. Customers value Commercial Insurance's strong capital position, extensive risk management and claims experience, and its ability to be a market leader in critical lines of insurance business.

Consumer Insurance is a unique franchise that brings together a broad portfolio of retirement, life insurance and property casualty products offered through multiple distribution networks. It holds long-standing, leading market positions in many of its U.S. product lines, and its global footprint provides the opportunity to pursue international growth opportunities selectively in countries with attractive markets. With its strong capital position, customer-focused service, innovative product development capabilities and strong distribution relationships across multiple channels, Consumer Insurance is well positioned to provide clients with the products they need delivered through the channels they prefer.

Corporate and Other includes Direct Investment book, Global Capital Markets, and AIG Parent and Other as well as certain run-off insurance businesses.

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We have a significant international presence in both developed markets and growth economy nations, specifically in Asia Pacific, Central Europe, the Middle East, Africa and Latin America. We distribute our products through three major geographic regions:

- **Americas:** Includes the United States, Canada, Latin America, the Caribbean and Bermuda.

- **Asia Pacific:** Includes Japan, China, Korea, Singapore, Malaysia, Thailand, Australia, Indonesia and other Asia Pacific nations.

- **EMEA (Europe, Middle East and Africa):** Includes the United Kingdom, Continental Europe, the Russian Federation, India, the Middle East and Africa.

In 2014, 6.3 percent of our property casualty direct premiums were written in the state of California and 15.7 percent and 7.5 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of such premiums.

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*   Represents revenues from insurance operations. Revenues for Property Casualty, Mortgage Guaranty, and Personal Insurance include net premiums earned and net investment income. Revenues for Institutional Markets, Retirement and Life include premiums, policy fees, net investment income and advisory fees.

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Customer: Strive to be our customers' most valued insurer by offering innovative products, superior service and access to an extensive global network.
Strategic Growth: Grow our higher-value businesses while investing in transformative opportunities.
Underwriting Excellence: Improve our business portfolio through better pricing and risk selection by using enhanced data, analytics and the application of science to deliver superior risk-adjusted returns.
Claims Excellence: Improve claims processes, analytics and tools to deliver superior customer service and decrease our loss ratio.
Operational Effectiveness: Continue initiatives to modernize our technology and infrastructure; implement best practices to improve speed and quality of service.
Capital Efficiency: Increase capital fungibility and diversification, streamline our legal entity structure, optimize reinsurance and improve tax efficiency.
Investment Strategy: Increase asset diversification and take advantage of yield enhancement opportunities to meet our capital, liquidity, risk and return objectives.

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Commercial Insurance's operating segments consist of *Property Casualty, Mortgage Guaranty and Institutional Markets.*

Casualty: Products include general liability, commercial automobile liability, workers' compensation, excess casualty and crisis management insurance products. Casualty also includes risk management and other customized structured programs for large corporate and multinational customers.

Property: Products include commercial, industrial and energy-related property insurance products and services that cover exposures to man-made and natural disasters, including business interruption.

Specialty: Products include aerospace, environmental, political risk, trade credit, surety and marine insurance products, and various small and medium sized enterprises insurance lines.

Financial: Products include professional liability insurance for a range of businesses and risks, including directors and officers liability (D&O), fidelity, employment practices, fiduciary liability, cybersecurity risk, kidnap and ransom, and errors and omissions insurance (E&O).

Mortgage Guaranty: Mortgage insurance (MI) protects mortgage investors against the increased risk of borrower default related to high loan-to-value (LTV) mortgages.

Institutional Markets: Products primarily include stable value wrap products, structured settlement and terminal funding annuities, high net worth products, corporate- and bank-owned life insurance and GICs.

Property Casualty conducts its business primarily through our Non-Life Insurance Companies, which include National Union; American Home; Lexington; Fuji Fire; American Home Japan; AIG Asia Pacific Insurance, Pte, Ltd. and AIG Europe Limited.

Mortgage Guaranty conducts its business primarily through UGRIC.

Institutional Markets conducts its business primarily through our Life Insurance Companies, which include American General Life, VALIC and U.S. Life.

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Property Casualty products are primarily distributed through a network of independent retail and wholesale brokers, and through an independent agency network.

Mortgage Guaranty products and services are distributed to a comprehensive range of mortgage originators including national mortgage, community and money center banks, as well as through builder-owned, regional mortgage and internet-sourced lender and credit unions.

Institutional Markets products are primarily distributed through specialized marketing and consulting firms and structured settlement brokers.

Operating in a highly competitive industry, Property Casualty competes against several hundred stock companies, specialty insurance organizations, mutual companies and other underwriting organizations in the U.S. In international markets, Property Casualty competes for business with the foreign insurance operations of large global insurance groups and local companies in specific market areas and product types. Mortgage Guaranty competes with several private providers of mortgage insurance, both well-established and new entrants to the industry, and the Federal Housing Administration, which is the largest provider of mortgage insurance in the United States. Institutional Markets competes with large domestic (both stock and mutual) life companies, as well as international life companies.

Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. Commercial Insurance distinguishes itself in the insurance industry primarily based on its well-established brand, global franchise, financial and capital strength, innovative products, expertise in providing specialized coverages and customer service.

We serve our business and individual customers on a global basis — from the largest multinational corporations to local businesses and individuals. Our clients benefit from our substantial underwriting expertise and long-term commitment to the markets we serve.

Our competitive strengths include:

Financial strength and market leadership – a well capitalized, strong balance sheet highly valued by customers that allows us to be a market leader in certain lines of business

Underwriting and claims expertise – a recognized, talented and deeply experienced team

Global franchise – one of the largest operating footprints in the industry and deep history in developed and emerging markets

Scale – size and scope of business facilitates risk diversification to optimize returns on capital

Diversification – breadth of customers served, products underwritten and distribution channels

Innovation – a culture of innovation driven by risk management expertise and a focus on customer needs

Service – a culture of striving to be our customers' most valued insurer

Information and science capabilities – knowledge and information to improve a customer's experience

Our challenges include:

Over capacity in certain lines of business can lead to downward pressure on market pricing

Tort environment volatility in certain jurisdictions and lines of business

Regulatory requirements increasing in volume and complexity due to heightened regulatory scrutiny and supervision of the insurance and financial services industries in recent years

Volatility in the U.S. housing and mortgage markets and from natural and man-made catastrophes

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Customer: Strive to be our customers' most valued insurer. Through our unique franchise, which brings together a broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks, Consumer Insurance aims to provide customers with the products they need, delivered through the channels they prefer.
Information-Driven Strategy: Utilize customer insight, analytics and the application of science to optimize customer acquisition, product profitability, product mix, channel performance and risk management capabilities.
Focused Growth: Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics.
Operational Effectiveness: Simplify processes, enhance operating environments, and leverage the best platforms and tools for multiple operating segments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.
Investment Strategy: Maintain a diversified, high quality portfolio of fixed maturity securities that largely matches the duration characteristics of related insurance liabilities with assets of comparable duration, and pursue yield-enhancement opportunities that meet liquidity, risk and return objectives.
Profitability and Capital Management: Deliver solid earnings through disciplined pricing, sustainable underwriting improvements and diversification of risk, and increase capital efficiency within insurance entities to enhance return on equity.
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Consumer Insurance's operating segments consist of *Retirement, Life,* and *Personal Insurance*.

Fixed Annuities: Products include single and flexible premium fixed annuities and single premium immediate and deferred income annuities. The Fixed Annuities product line maintains its industry-leading position in the U.S. bank distribution channel by designing products collaboratively with banks and offering an efficient and flexible administration platform.

Retirement Income Solutions: Primary products include variable and fixed index annuities that provide both asset accumulation and lifetime income benefits, as well as investment-focused variable annuities. Variable annuities are distributed through banks, wirehouses, and regional and independent broker dealers. Fixed index annuities are distributed through banks, broker dealers, independent marketing organizations and career and independent insurance agents.

Group Retirement: Products are marketed under the VALIC brand and include fixed and variable annuities, mutual funds, and plan administrative and compliance services. VALIC career financial advisors and independent financial advisors provide retirement plan participants with enrollment support and comprehensive financial planning services.

Retail Mutual Funds and **Advisor Group:** Includes our mutual fund and related administration and servicing operations as well as one of the largest networks of independent financial advisors in the U.S. Brands include Royal Alliance, SagePoint Financial, FSC Securities and Woodbury Financial.

Primary products in the U.S. include term life and universal life insurance. International products include term and whole life insurance, supplemental health, cancer and critical illness insurance. Life products are primarily distributed through independent marketing organizations, independent insurance agents, career agents and financial advisors and direct marketing. The Life operating segment also offers group products distributed through employers (both employer-paid and voluntary) and sponsored organizations, with the key products being basic and supplemental term life, universal life and disability insurance.

Accident and Health: Products include voluntary and sponsor-paid personal accident and supplemental health products for individuals, employees, associations and other organizations. It also includes a broad range of travel insurance products and services for leisure and business travelers. Accident and Health products are distributed through various channels, including agents, brokers, affinity partners, airlines and travel agents.

Personal Lines: Products include automobile and homeowners insurance, extended warranty, and consumer specialty products, such as identity theft and credit card protection. Products are distributed through various channels, including agents, brokers and direct marketing. Personal Insurance also provides insurance for high-net-worth individuals offered through AIG Private Client Group, including auto, homeowners, umbrella, yacht, fine art and collections insurance.

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The Retirement and Life operating segments conduct their business primarily through our Life Insurance Companies, which include American General Life, VALIC, U.S. Life, and Fuji Life.

The Personal Insurance operating segment conducts its business primarily through our Non-Life Insurance Companies, which include Fuji Fire, AIU Insurance Company, Ltd., American Home, National Union, Lexington, American Home Japan, AIG Asia Pacific Insurance, Pte, Ltd. and AIG Europe Limited.

Retirement products are distributed through affiliated channels that include over 1,200 VALIC career financial advisors and over 5,700 licensed financial advisors in the AIG Advisor Group and through non-affiliated channels, which include banks, wirehouses, regional and independent broker-dealers, independent marketing organizations and independent insurance agents.

Life products are distributed in the U.S. through affiliated channels that include over 1,700 career agents and financial advisors in the AIG Financial Network and direct marketing. Non-affiliated channels in the U.S. include independent marketing organizations, independent agents and benefit brokers. International life products are sold through non-affiliated independent agents and direct marketing.

Personal Insurance products and services are distributed through various channels, including independent agents, career agents, brokers, affinity partners, airlines and travel agents, as well as direct marketing.

Consumer Insurance operates in the highly competitive insurance and financial services industry in the U.S. and select international markets and competes against various financial services companies, including mutual funds, banks and other life and property casualty insurance companies. Competition is primarily based on product pricing and design, distribution, financial strength, customer service and ease of doing business.

Consumer Insurance competes based on its long standing market leading positions, innovative products, strong distribution relationships across multiple channels, customer-focused service and strong financial ratings.

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Our competitive strengths include:

Unique franchise – broad portfolio of retirement, life insurance and personal insurance products offered through multiple distribution networks

Market leader – long-standing, leading positions in many of our product lines and key distribution channels

Global footprint – ability to selectively pursue international growth opportunities in countries with attractive markets

Strong distribution relationships across multiple channels – opportunity to expand on distribution relationships to effectively market diverse product offerings

Information and science capabilities – used to build decision tools, transform processes and optimize performance

Customer-focused service – investments in technology and operating platforms provide the foundation to deliver our target customer experience

Risk diversification and scale – breadth of product offerings and scale advantage in key product lines

Capital strength – capacity to drive growth in attractive markets and product lines

Our challenges include:

Highly competitive environment where products are differentiated by pricing, terms, customer service and ease of doing business and barriers to entry are significant in certain markets

Regulatory requirements in recent years have created an increasingly complex environment that is affecting industry growth and profitability

Low interest rate environment makes it more difficult to competitively price guaranteed return products and puts margin pressure on existing products due to the challenge of investing in a low rate environment

Direct Investment book (DIB) consists of a portfolio of assets and liabilities held directly by AIG Parent in the Matched Investment Program (MIP) and certain non-derivative assets and liabilities of AIG Financial Products Corp. and related subsidiaries (collectively AIGFP). The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all of its liabilities as they come due, even under stress scenarios, and to maximize returns consistent with our risk management objectives.

Global Capital Markets (GCM) consists of the operations of AIG Markets, Inc. (AIG Markets) and the remaining derivatives portfolio of AIGFP. AIG Markets acts as the derivatives intermediary between our subsidiaries and third parties to provide hedging services. The AIGFP portfolio continues to be wound down and is managed consistently with our risk management objectives. Although the portfolio may experience periodic fair value volatility, it consists predominantly of transactions that we believe are of low complexity, low risk or currently not economically appropriate to unwind based on a cost versus benefit analysis.

AIG Parent and Other consists primarily of interest expense, consolidation and eliminations, expenses of corporate staff not attributable to specific reportable segments, certain expenses related to internal controls and the financial and operating

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platforms, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation related charges and credits, net gain (loss) on sale of divested businesses that did not meet the criteria for discontinued operations accounting treatment, and equity in the earnings of AerCap.

Run-off Insurance Business consists primarily of run-off lines of business, including excess workers' compensation, asbestos and legacy environmental (1986 and prior); certain environmental liability businesses written prior to 2004 and certain long-duration business, primarily in Japan and the U.S.

Other Businesses include investments in life settlements, real estate investment operations, institutional asset management operations, equipment financing operations and our remaining consumer finance business.

Aircraft Leasing consists of ILFC. On May 14, 2014, we completed the sale of 100 percent of the common stock of ILFC to AerCap Ireland Limited, a wholly owned subsidiary of 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). As a result of the AerCap Transaction, we own approximately 46 percent of the outstanding common stock of AerCap. We account for our interest in AerCap using the equity method of accounting. See Note 4 to the Consolidated Financial Statements for additional information on the AerCap Transaction.

Retained Interests includes fair value gains and losses on (i) AIA ordinary shares retained following the AIA initial public offering prior to their sale in 2012 and (ii) Maiden Lane III LLC (ML III) assets prior to their liquidation in 2012.

OUR EMPLOYEES

At December 31, 2014, we had approximately 65,000 employees. We believe that our relations with our employees are satisfactory.

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A Review of Liability for Unpaid LOSSES and loss Adjustment Expenses

The liability for unpaid losses and loss adjustment expenses (also referred to as loss reserves) represents the accumulation of estimates for unpaid reported losses (case reserves) and losses that have been incurred but not reported (IBNR) for the Non-Life Insurance Companies.

We recognize as assets the portion of this liability that is expected to be recovered from reinsurers. Loss reserves are discounted, where permitted, in accordance with U.S. GAAP.

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process.

We use a number of techniques to analyze the adequacy of the established net liability for unpaid losses and loss adjustment expenses (net loss reserves). Using these analytical techniques, we monitor the adequacy of our established reserves and determine appropriate assumptions for inflation and other factors influencing loss costs. Our analyses also take into account emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence. We also consider specific factors that may impact losses, such as changing trends in medical costs, unemployment levels and other economic indicators, as well as changes in legislation and social attitudes that may affect decisions to file claims or the magnitude of court awards. See Item 7. MD&A — Critical Accounting Estimates for a description of our loss reserving process.	*Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry. These changes in estimates are sometimes referred to as "prior year loss development" or "reserve development."*

A significant portion of the Non-Life Insurance Companies' reserves are for the U.S. commercial casualty class, including excess casualty, asbestos and environmental, which tends to involve longer periods of time for the reporting and settlement of claims than other types of insurance and therefore may increase the inherent risk and uncertainty with respect to our loss reserve development.

The "Analysis of Consolidated Loss Reserve Development" table presents the development of prior year net loss reserves for calendar years 2004 through 2014 for each balance sheet in that period. The information in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). This table should be interpreted with care by those not familiar with its format or those who are familiar with other loss development analyses arranged in an accident year or underwriting year basis rather than the balance sheet, as shown below. See Note 13 to the Consolidated Financial Statements.

The top row of the table shows ***Net Reserves Held*** *(the net liability for unpaid losses and loss adjustment expenses) at each balance sheet date, net of discount.* This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for IBNR claims. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held. For example, **Net Reserves Held (Undiscounted)** was $48.8 billion at December 31, 2004.

The next section of the table shows the original ***Net Undiscounted Reserves re-estimated*** *over 10 years. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of*

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significant judgments, the emergence of latent exposures, and changes in medical cost trends. For example, the original undiscounted reserve of $48.8 billion at December 31, 2004, was re-estimated to $66.2 billion at December 31, 2014. The amount of the development related to losses settled or re-estimated in 2014, but incurred in 2011, is included in the cumulative development amount for years 2011, 2012 and 2013. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

*The middle of the table shows **Net Deficiency.** This is the aggregate change in estimates over the period of years covered by the table.* For example, the net loss reserve deficiency of $17.4 billion for 2004 is the difference between the original undiscounted reserve of $48.8 billion at December 31, 2004 and the $66.2 billion of re-estimated reserves at December 31, 2014. The net deficiency amounts are cumulative; in other words, the amount shown in the 2013 column includes the amount shown in the 2012 column, and so on. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

*The bottom portion of the table shows the **Paid (Cumulative)** amounts during successive years related to the undiscounted loss reserves.* For example, as of December 31, 2014, AIG had paid a total of $55.4 billion of the $66.2 billion in re-estimated reserves for 2004, resulting in Remaining Reserves (Undiscounted) of $10.8 billion for 2004. Also included in this section are the **Remaining Reserves (Undiscounted)** and the **Remaining Discount** for each year.

As discussed in footnotes (a) and (b) below, the calendar year distribution of these Paid (Cumulative) amounts are estimates that are affected by certain transactions. These payment amounts may differ from the actual losses paid for a given accident year.

The following table presents loss reserves and the related loss development for 2004 through 2014 and consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the re estimation of these amounts as of December 31, 2014.[a]

(in millions)	2004	2005	2006	2007	2008	2009	2010	2
Net Reserves Held[b]	$ 47,253	$ 57,476	$ 62,630	$ 69,288	$ 72,455	$ 67,899	$ 71,507	$ 70,8
Discount (in Reserves Held)	1,553	2,110	2,264	2,429	2,574	2,655	3,217	3,18
Net Reserves Held (Undiscounted)	48,806	59,586	64,894	71,717	75,029	70,554	74,724	74,0
Net undiscounted Reserve re-estimated as of:								
One year later	53,486	59,533	64,238	71,836	77,800	74,736	74,919	74,4
Two years later	55,009	60,126	64,764	74,318	82,043	74,529	75,502	75,1
Three years later	56,047	61,242	67,303	78,275	81,719	75,187	76,023	76,2
Four years later	57,618	63,872	70,733	78,245	82,422	76,058	77,031	
Five years later	60,231	67,102	70,876	79,098	83,135	77,054		

Six years later	63,348	67,518	71,572	79,813	84,100			
Seven years later	63,928	68,233	72,286	80,770				
Eight years later	64,532	69,023	73,356					
Nine years later	65,261	70,029						
Ten years later	66,162							
Net Deficiency on net reserves held	(17,356)	(10,443)	(8,462)	(9,053)	(9,071)	(6,500)	(2,307)	(2,2
Net Deficiency related to asbestos and environmental (A&E)	(3,157)	(2,228)	(2,019)	(2,000)	(1,951)	(1,799)	(297)	(2
Net Deficiency excluding A&E	(14,199)	(8,215)	(6,443)	(7,053)	(7,120)	(4,701)	(2,010)	(1,9
Paid (Cumulative) as of:								
One year later	14,910	15,326	14,862	16,531	24,267	15,919	17,661	19,2
Two years later	24,377	25,152	24,388	31,791	36,164	28,428	30,620	31,7
Three years later	31,296	32,295	34,647	40,401	46,856	38,183	40,091	41,4
Four years later	36,804	40,380	40,447	48,520	53,616	45,382	47,379	
Five years later	43,162	44,473	46,474	53,593	58,513	51,104		
Six years later	46,330	49,552	50,391	57,686	62,734			
Seven years later	50,462	52,243	53,545	61,221				
Eight years later	52,214	54,332	56,424					
Nine years later	53,693	56,516						
Ten years later	55,375							

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Remaining Reserves (Undiscounted)	10,787	13,513	16,932	19,549	21,366	25,950	29,652	34,7
Remaining Discount	1,342	1,474	1,632	1,797	1,978	2,143	2,309	2,5
Remaining Reserves	$ 9,445	$ 12,039	$ 15,300	$ 17,752	$ 19,388	$ 23,807	$ 27,343	$ 32,2
Net Liability, End of Year	$ 48,806	$ 59,586	$ 64,894	$ 71,717	$ 75,030	$ 70,554	$ 74,724	$ 74,0
Reinsurance Recoverable, End of Year	14,624	19,693	17,369	16,212	16,803	17,487	19,644	20,3
Gross Liability, End of Year	63,430	79,279	82,263	87,929	91,833	88,041	94,368	94,3
Re-estimated Net Liability	66,162	70,029	73,356	80,770	84,100	77,054	77,031	76,2
Re-estimated Reinsurance Recoverable	21,765	24,548	20,819	19,317	18,793	18,634	16,709	18,4
Re-estimated Gross Liability	87,927	94,577	94,175	100,087	102,893	95,688	93,740	94,6
Cumulative Gross Redundancy (Deficiency)	$(24,497)	$(15,298)	$(11,912)	$(12,158)	$(11,060)	$(7,647)	$ 628	$ (34

(a) During 2009, we deconsolidated Transatlantic Holdings, Inc. and sold 21st Century Insurance Group and HSB Group, Inc. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.7 billion and as an $8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.

(b) The increase in Net Reserves Held from 2009 to 2010 is partially due to the $1.7 billion in Net Reserves Held by Fuji Fire, which was acquired in 2010. The decrease in 2011 is due to the cession of asbestos reserves described in Item 7. MD&A — Insurance Reserves – Non-Life Insurance Companies— Asbestos and Environmental Reserves.

The Liability for unpaid losses and loss adjustment expenses as reported in our Consolidated Balance Sheet at December 31, 2014 differs from the total reserves reported in the annual statements filed with state insurance departments and, when applicable, with foreign regulatory authorities primarily for the following reasons:

• Reserves for certain foreign operations are not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events;

• Statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable; and

• Unlike statutory financial statements, our consolidated liability for unpaid losses and loss adjustment expenses excludes the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverable and represent the accumulation of estimates for reported losses and IBNR, net of estimated salvage and subrogation. We review the adequacy of established gross loss reserves in the manner previously described for net loss reserves. A reconciliation of activity in the Liability for unpaid losses and loss adjustment expenses is included in Note 13 to the Consolidated Financial Statements.

For further discussion of asbestos and environmental reserves, see Item 7. MD&A — Insurance Reserves – Non-Life Insurance Companies— Asbestos and Environmental Reserves.

Reinsurance Activities

Reinsurance is used primarily to manage overall capital adequacy and mitigate the insurance loss exposure related to certain events such as natural and man-made catastrophes.

Our subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we are required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

Over the last several years, the Non-Life Insurance Companies revised the ceded reinsurance framework and strategy to improve capital management and support our global product line risk and profitability objectives. As a result of adopting the revised framework and strategy, many individual reinsurance contracts were consolidated into more efficient global programs and reinsurance ceded to third parties in support of risk and capital management objectives has decreased for the full year

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2014 compared to 2013. We continually evaluate the relative attractiveness of different forms of reinsurance contracts and different markets that may be used to achieve our risk and profitability objectives.

Reinsurance markets include:

- Traditional local and global reinsurance markets including those in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;

- Capital markets through insurance-linked securities and collateralized reinsurance transactions, such as catastrophe bonds, sidecars and similar vehicles; and

- Other insurers that engage in both direct and assumed reinsurance.

The form of reinsurance that we may choose from time to time will generally depend on whether we are seeking:

- proportional reinsurance, whereby we cede a specified percentage of premium and losses to reinsurers;

- non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis; or

- facultative contracts that reinsure individual policies.

Reinsurance contracts do not relieve our subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

In certain markets, we are required to participate on a proportional basis in reinsurance pools based on our relative share of direct writings in those markets. Such mandatory reinsurance generally covers higher-risk consumer exposures such as assigned-risk automobile and earthquake, as well as certain commercial exposures such as workers' compensation.

In 2014, we continued our strategy to take advantage of the pricing differential between traditional reinsurance markets and capital markets. In December 2014, we entered into capital markets reinsurance transactions, effective as of January 1, 2015, with Tradewynd Re Ltd., which will provide $500 million of indemnity reinsurance protection against U.S., Caribbean, Canadian, Mexican and Gulf of Mexico named storms and U.S., Caribbean, Mexican and Canadian earthquakes. To fund its potential obligations to AIG, Tradewynd Re Ltd. issued three tranches of notes, one with a one-year term and two with three-year terms. The transaction provides fully collateralized coverage against losses from the events described above on a per-occurrence basis through December 2015 (on the one-year tranche) and December 2017 (on the three-year tranches). As of January 2015, our outstanding catastrophe bond issuances result in us having

$925 million of indemnity reinsurance protection outstanding in the capital markets.

See Item 7. MD&A – Enterprise Risk Management – Insurance Operations Risks – Non-Life Insurance Companies Key Insurance Risks – Reinsurance Recoverable for a summary of significant reinsurers.

REGULATion

Our operations around the world are subject to regulation by many different types of regulatory authorities, including insurance, securities, derivatives, investment advisory and thrift regulators in the United States and abroad.

Our insurance subsidiaries are subject to regulation and supervision by the states and jurisdictions in which they do business. The insurance and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

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The following table provides a general overview of our primary regulators and related bodies and a brief description of their oversight with respect to us and our subsidiaries, including key regulations or initiatives that we are currently, or may in the future be, subject to. Such regulations and initiatives, both in the United States and abroad, are discussed in more detail following the table.

Board of Governors of the Federal Reserve System (FRB): Oversees and regulates financial institutions, including nonbank systemically important financial institutions (nonbank SIFIs). We are currently subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements, as a nonbank SIFI.

Office of the Comptroller of the Currency (OCC): Charters, regulates and supervises all national banks and federal savings associations. The OCC supervises and regulates AIG Federal Savings Bank, our trust-only federal thrift subsidiary.

Securities and Exchange Commission (SEC): Oversees and regulates the U.S. securities and security-based swap markets, U.S. mutual funds, U.S. broker-dealers and U.S. investment advisors. Principal regulator of the mutual funds offered by our broker-dealer subsidiaries. The SEC is in the process of implementing rules and regulations governing reporting, execution and margin requirements for security-based swaps entered into within the U.S or by U.S. persons. Our security-based swap activities conducted by GCM are likely to be subject to certain of these rules and regulations.

Commodities Futures Trading Commission (CFTC): Oversees and regulates the U.S. swap, commodities and futures markets. The CFTC has begun implementing and is continuing to implement rules and regulations governing reporting, execution, margin and other requirements for swaps entered into within the U.S. or involving U.S. persons. Our swap activities conducted by GCM are subject to certain of these rules and regulations.

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank): Dodd-Frank has effected comprehensive changes to financial services regulation and subjects us, or may subject us, as applicable, to additional federal regulation, including:

- enhanced prudential standards for nonbank SIFIs (including minimum leverage and risk-based capital requirements, capital planning, stress tests, liquidity requirements, corporate governance requirements, contingent capital requirements, counterparty credit limits, an early remediation regime process and recovery and resolution planning);

- limitations on proprietary trading or covered fund activities, if the FRB decides to impose certain elements of Section 619 of Dodd-Frank (referred to as the "Volcker Rule") on nonbank SIFIs;

- financial sector concentration limits; and
- increased regulation and restrictions on derivatives markets and transactions.

State Insurance Regulators: Our insurance subsidiaries are subject to regulation and supervision by the states and other jurisdictions in which they do business. Regulation is generally derived from statutes that delegate supervisory and regulatory powers to a state insurance regulator, and primarily relates to the insurer's financial condition, corporate conduct and market conduct activities.

NAIC Standards: The National Association of Insurance Commissioners (NAIC) is a standard-setting and regulatory support organization created and governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. The NAIC itself is not a regulator, but through the NAIC, state insurance regulators establish standards and best practices, conduct peer review and coordinate regulatory oversight.

Financial Stability Board (FSB): Consists of representatives of national financial authorities of the G20 nations. The FSB itself is not a regulator, but it coordinates the work of national financial authorities and international standard-setting bodies and develops and promotes implementation of regulatory, supervisory and other financial policies.

International Association of Insurance Supervisors (IAIS): Represents insurance regulators and supervisors of more than 200 jurisdictions in nearly 140 countries and seeks to promote globally consistent insurance industry supervision. The IAIS itself is not a regulator, but the FSB has directed the IAIS to create standards on issues such as financial group supervision, capital and solvency standards, systemic economic risk and corporate governance and incorporate them into IAIS' Insurance Core Principles (ICPs). The FSB also charged IAIS with developing a template for measuring systemic risks posed by insurer groups. Based on IAIS' assessment template, the FSB identified AIG as a global systemically important insurer (G-SII), which may subject us to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision, enhanced liquidity and strategic risk management planning, basic capital requirements and higher loss absorbency capital requirements. The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. In connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard applicable to IAIGs. AIG currently meets the parameters set forth to define an IAIG.

European Union (EU): Certain financial services firms with regulated entities in the EU, such as us, are subject to supplementary supervision, which seeks to enable supervisors to perform consolidated insurance group supervision at the level of the ultimate parent entity. The objective of supplementary supervision is to detect, monitor, manage and control group risks. The UK Prudential Regulatory Authority, the United Kingdom's prudential regulator, is our EU supervisory coordinator. In addition, the Financial Conduct Authority has oversight of AIG's European operations for consumer protection and competition matters. The EU has also established a set of regulatory requirements for EU derivatives activities under the European Market Infrastructure Regulation (EMIR) that include, among other things, risk mitigation, risk management and regulatory reporting, which are effective, and clearing requirements expected to become effective in 2015.

The EU's Solvency II Directive (2009/138/EEC) (Solvency II), which is expected to become effective in 2016, includes minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed “equivalent” to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we could be subjected to Solvency II standards.

Regulation of Foreign Insurance Company Subsidiaries: Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements. Our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries also regulate rates on various types of policies.

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Federal Reserve Supervision

Due to the determination of the Financial Stability Oversight Council (Council) that we should be regulated by the FRB as a nonbank SIFI pursuant to Section 113 of Dodd-Frank, we have been since July 2013 subject to the FRB's examination, supervision and enforcement authority, and certain reporting requirements as a nonbank SIFI. Dodd-Frank requires that the Council reevaluate its determination annually; however, the Council's 2014 annual reevaluation did not result in a change to our nonbank SIFI status, and we remain regulated by the FRB.

Dodd-Frank has effected comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly-created government agencies and oversight bodies to promulgate regulations implementing the law, an ongoing process that is under way and is anticipated to continue over the next few years.

As required by Dodd-Frank, the FRB has adopted enhanced prudential standards (including minimum leverage and risk-based capital requirements, requirements to submit annual capital plans to the FRB demonstrating the ability to satisfy the required capital ratios under baseline and stressed conditions, and stress-testing requirements) for bank holding companies with $50 billion (and in some cases, $10 billion) or more in total consolidated assets and certain foreign banking organizations. The FRB

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has also adopted liquidity coverage ratio and supplemental leverage ratio requirements for a subset of large banking organizations. These requirements do not apply to nonbank SIFIs. Dodd-Frank authorizes the FRB to tailor its application of enhanced prudential standards to different companies on an individual basis or by category, and the FRB has indicated that it intends to assess the business model, capital structure and risk profile of nonbank SIFIs to determine how enhanced prudential standards should apply to them, and, if appropriate, to tailor the application of these standards for nonbank SIFIs by order or regulation. We cannot predict what enhanced prudential standards the FRB will promulgate for nonbank SIFIs, either generally or as applicable to insurance businesses. The FRB has exercised general examination, supervision and enforcement authority over us since we were determined to be a nonbank SIFI in July 2013. The FRB has focused its general supervisory authority over us in several areas, including financial and control related reporting, oversight of a capital planning and capital analysis and review process, model governance and validation, operational risk management, recovery planning and resolution planning. We cannot predict how the FRB's continuing exercise of its general supervisory authority over us as a nonbank SIFI will develop, although the FRB could, as a prudential matter, for example, limit our ability to pay dividends, repurchase shares of AIG Common Stock or acquire or enter into other businesses. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally, impact our businesses, results of operations, cash flows or financial condition, or require us to raise additional capital or result in a downgrade of our credit ratings. In 2014, the FRB conducted a quantitative impact study to evaluate the potential effects of a revised regulatory capital framework on nonbank SIFIs that are substantially engaged in insurance underwriting activity. The FRB has not released any results or conclusions related to this study. We also note that in December 2014, Congress adopted changes to Section 171 of Dodd-Frank in order to clarify that the FRB has the flexibility to tailor capital rules specifically for certain insurance activities and is not bound to impose capital standards and quantitative requirements generally applicable to insured depository institutions and bank holding companies. We cannot predict with any certainty, however, what capital rules, if any, the FRB may impose on insurers.

As a nonbank SIFI, we anticipate we will be subject to:

- stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions;

- stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements;

- management interlock prohibitions and a requirement to maintain a plan for rapid and orderly resolution in the event of severe financial distress (requirements that we are already subject to); and

- an early remediation regime process to be administered by the FRB.

Furthermore, if the Council were to make an additional separate determination that AIG poses a "grave threat" to U.S. financial stability, we would be required to maintain a debt-to-equity ratio of no more than

15:1 and the FRB may:

- limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;
- restrict our ability to offer specified financial products;
- require us to terminate specified activities;
- impose conditions on how we conduct our activities; and
- with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require us to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

As part of its general prudential supervisory powers, the FRB has the authority to limit our ability to conduct activities that would otherwise be permissible for us to engage in if we do not satisfy certain requirements. In addition, if we were to seek to acquire a stake in certain financial companies, Dodd-Frank would require us to obtain the prior authorization of the FRB.

Other Effects of Dodd-Frank

In addition, Dodd-Frank may also have the following effects on us:

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- As a nonbank SIFI, we are currently required to provide on an annual basis (or more frequently, if required) to the FRB and FDIC a plan for our rapid and orderly resolution in the event of material financial distress or failure, which must, among other things, provide a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems. We continue to update and refine our resolution plan, which was originally submitted to regulators on July 1, 2014. Our next resolution plan is required to be submitted to the FRB and FDIC on July 1, 2015. If the FRB and FDIC jointly determine, based on their review of the plan, that it is not credible or would not facilitate our orderly resolution under the bankruptcy code, they may require us to re-submit an amended plan. If the re-submitted plan also fails to meet regulatory expectations, the FRB and FDIC may exercise their authority under Dodd-Frank to impose more stringent capital, leverage, or liquidity requirements, restrict our growth, activities, or operations, require us to divest assets and operations, or otherwise increase their level of supervision of us.

- The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.

- Title II of Dodd-Frank provides that a financial company whose largest United States subsidiary is an insurer (such as us) may be subject to a special resolution process outside the federal bankruptcy code. That process is to be administered by the FDIC upon a coordinated determination by the director of the Federal Insurance Office and the FRB, either at the request of the Secretary of the Treasury or on their own initiative, and in consultation with the FDIC, that such a financial company is in default or in danger of default and presents a systemic risk to U.S. financial stability.

- Dodd-Frank provides for significantly increased regulation of and restrictions on derivatives markets and transactions that could affect various activities of AIG and its insurance and financial services subsidiaries, including (i) regulatory reporting for swaps (which are regulated by the CFTC) and security-based swaps (which are regulated by the SEC), (ii) mandated clearing through central counterparties and execution through regulated exchanges or electronic facilities for certain swaps and security-based swaps and (iii) margin and collateral requirements. Although the CFTC has not yet finalized certain requirements, many other requirements have taken effect, such as swap reporting, the mandatory clearing of certain interest rate swaps and credit default swaps, and the mandatory trading of certain swaps on swap execution facilities or exchanges. The SEC has proposed, but not yet finalized, rules with respect to certain of the regulations and restrictions noted above governing security-based swaps. These regulations have affected and may further affect various activities of AIG and its insurance and financial services subsidiaries as rules are finalized to implement additional elements of the regulatory regime.

Similar regulations have been proposed or adopted outside the United States. For instance, the EU has also established a set of new regulatory requirements for EU derivatives activities under EMIR. These requirements include, among other things, various risk mitigation, risk management and regulatory reporting requirements that have already become effective and clearing requirements that are expected to become effective in 2015. These requirements could result in increased administrative costs with respect to our EU derivatives activities and overlapping or inconsistent regulation depending on the ultimate application of cross-border regulatory requirements between and among U.S. and non-U.S. jurisdictions.

• Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap for stable value contracts is appropriate and in the public interest. Certain of our affiliates participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

• Dodd-Frank established a Federal Insurance Office (FIO) within the United States Department of the Treasury (Department of the Treasury) headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council. On December 12, 2013, the FIO released a Dodd-Frank mandated study on how to modernize and improve the system of insurance regulation in the United States. The report concluded that the uniformity and efficiency of the current state based regulatory system could be improved and highlighted areas in which Federal involvement is recommended. In the near-term, the FIO recommended that the states undertake reforms regarding capital adequacy, reform of insurer resolution practices, and marketplace regulation.

• Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent bureau within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction, although the U.S. Department of Housing and Urban

Development has since transferred authority to the CFPB to investigate mortgage insurance practices. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

• Title XIV of Dodd-Frank also restricts certain terms for mortgage loans, such as loan fees, prepayment fees and other charges, and imposes certain duties on a lender to ensure that a borrower can afford to repay the loan.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to us, fees for our supervision by the FRB and assessments to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by us into state guaranty funds).

We cannot predict whether these actions will become effective or the effect they may have on the financial markets or on our business, results of operations, cash flows, financial condition and credit ratings. However, it is possible that such effect could be materially adverse. See Item 1A. Risk Factors — Regulation for additional information.

Other Regulatory Developments

As described below, AIG has been designated as a Global Systemically Important Insurer (G-SII).

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are continuing to review the causes of the financial crisis and taking steps to avoid similar problems in the future. The FSB, consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly global systemically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including compensation, and a number of related issues associated with responses to the financial crisis. The FSB has directed the International Association of Insurance Supervisors (the IAIS, headquartered in Basel, Switzerland) to create standards relative to these areas and incorporate them within that body's Insurance Core Principles (ICPs). IAIS's ICPs form the baseline threshold against which countries' financial services regulatory efforts in the insurance sector are measured. That measurement is made by periodic Financial Sector Assessment Program (FSAP) reviews conducted by the World Bank and the International Monetary Fund and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have already begun implementing legislative and regulatory changes consistent with these recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency in Japan, financial and banking regulation adopted in France and compensation regulations proposed or adopted by the financial regulators in Germany and the United Kingdom Prudential Regulation Authority.

The FSB has also charged the IAIS with developing a template for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). The IAIS has provided its assessment template to the FSB. Based on this assessment template, on July 18, 2013, the FSB, in consultation with the IAIS and national authorities, identified an initial list of G-SIIs, which includes AIG. G-SIIs will be designated on an annual basis, and AIG was redesignated as a G-SII by the FSB on November 6, 2014. The IAIS intends G-SIIs to be subject to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision, enhanced liquidity and strategic risk management planning; basic capital requirements and higher loss absorbency (HLA) capital requirements. The IAIS finalized its basic capital requirement (BCR) in October 2014. The BCR covers all group activities and is required to be reported to national authorities on a confidential basis beginning in 2015. The BCR will serve as the initial foundation for the application of HLA capital requirements, which the IAIS intends to be calculated in part based on engagement in non-traditional and non-insurance activities. It is expected that the IAIS will develop HLA capital requirements by the end of 2015 and the G-SII policy framework will be fully implemented by 2019.

The IAIS is also developing ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. In connection with ComFrame, the IAIS is in the process of developing a risk-based global insurance capital standard (ICS) applicable to IAIGs. As currently delineated under ComFrame, AIG meets the parameters set forth to define an IAIG. ComFrame requirements are expected to be finalized in

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2018, and the IAIS is conducting a field testing of ComFrame, including the ICS, ahead of that deadline. It is expected that implementation of ComFrame and the ICS would begin in 2019.

Legislation in the European Union could also affect our international insurance operations. The Solvency II Directive (2009/138/EEC) (Solvency II), which was adopted on November 25, 2009 and is expected to become effective on January 1, 2016, reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. Solvency II is expected to be accompanied by Omnibus II, an EU proposal for a directive that also contains provisions for the capital treatment of products with long-term guarantees. Additionally, the European Insurance and Occupational Pensions Authority recently introduced interim guidelines effective January 1, 2014 that provide regulators in EU Member States with a framework to ensure that insurers make demonstrable progress towards meeting Solvency II requirements in 2016. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we, along with other U.S.-based insurance companies, could be required to be supervised under Solvency II standards. Whether the U.S. insurance regulatory regime will be deemed "equivalent" is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

We expect that the regulations applicable to us and our regulated entities will continue to evolve for the foreseeable future.

Regulation of Insurance Subsidiaries

Certain states and other jurisdictions require registration and periodic reporting by insurance companies that are licensed in such jurisdictions and are controlled by other entities. Applicable legislation typically requires periodic disclosure concerning the entity that controls the registered insurer and the other companies in the holding company system and prior approval of intercompany services and transfers of assets, including in some instances payment of dividends by the insurance subsidiary, within the holding company system. Our subsidiaries are registered under such legislation in those jurisdictions that have such requirements.

Our insurance subsidiaries are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to the financial condition of the insurers and their corporate conduct and market conduct activities. This includes approval of policy forms and rates, the standards of solvency that must be met and maintained, including with respect to risk-based capital, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed, reserves for unearned premiums, losses and other purposes and enterprise risk management and corporate governance requirements. In general, such regulation is for the protection of policyholders rather than the equity owners of these companies.

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which allows states to act upon the results of RBC calculations, and provides for four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a specified RBC ratio to a mandatory regulatory takeover of the company. The RBC formula computes a risk-adjusted surplus level by applying discrete factors to various asset, premium and reserve items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S.-based Non-Life Insurance Companies and Life Insurance Companies exceeded RBC minimum required levels as of December 31, 2014.

If any of our insurance entities fell below prescribed levels of statutory surplus, it would be our intention to provide appropriate capital or other types of support to that entity. For additional information, see Item 7. MD&A — Liquidity and Capital Resources — Liquidity and Capital Resources of AIG Parent and Subsidiaries — Non-Life Insurance Companies and — Life Insurance Companies.

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The NAIC's Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees (ULSGs). NAIC Actuarial Guideline 38 (Guideline AXXX) clarifies the application of Regulation XXX as to these guarantees, including certain ULSGs. See Item 1A – Risk Factors and Note 20 to the Consolidated Financial Statements for risks and additional information related to these statutory reserving requirements.

The NAIC has undertaken the Solvency Modernization Initiative (SMI) which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and is expected to lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and corporate governance.

A substantial portion of our business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, our subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements, licenses issued by foreign authorities to our subsidiaries are subject to modification or revocation by such authorities, and therefore these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

In addition to licensing requirements, our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the local government, to which admitted insurers are obligated to cede a portion of their business on terms that may not always allow foreign insurers, including our subsidiaries, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

See Item 7. MD&A — Liquidity and Capital Resources — Regulation and Supervision and Note 20 to the Consolidated Financial Statements.

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Item 1 / BUSINESS

AVAILABLE INFORMATION ABOUT AIG

Our corporate website is www.aig.com. We make available free of charge, through the Investor Information section of our corporate website, the following reports (and related amendments as filed with the SEC) as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC:

- *Annual Reports on Form 10-K*
- *Quarterly Reports on Form 10-Q*
- *Current Reports on Form 8-K*
- *Proxy Statements on Schedule 14A, as well as other filings with the SEC*

Also available on our corporate website:

- *Charters for Board Committees:* Audit, Nominating and Corporate Governance, Compensation and Management Resources, Risk and Capital, Regulatory, Compliance and Public Policy, and Technology Committees
- *Corporate Governance Guidelines* (*which include Director Independence Standards*)
- *Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*
- *Employee Code of Conduct*
- *Related Party Transactions Approval Policy*

Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on our website or that can be accessed through our website is not incorporated by reference into this Annual Report on Form 10-K. Reference to our website is made as an inactive textual reference.

ITEM 1A / RISK FACTORs

Investing in AIG involves risk. In deciding whether to invest in AIG, you should carefully consider the following risk factors. Any of these risk factors could have a significant or material adverse effect on our businesses, results of operations, financial condition or liquidity. They could also cause significant fluctuations and volatility in the trading price of our securities. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect AIG. These factors should be considered carefully together with the other information contained in this report and the other reports and materials filed by us with the Securities and Exchange Commission (SEC). Further, many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effect of others. Such a combination could materially increase the severity of the impact of these risks on our businesses, results of operations, financial condition and liquidity.

MARKET CONDITIONS

Difficult conditions in the global capital markets and the economy may materially and adversely affect our businesses, results of operations, financial condition and liquidity. Our businesses are highly dependent on the economic environment, both in the U.S. and around the world. Extreme market events, such as the global financial crisis during 2008 and 2009, have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, and a widening of credit spreads. Concerns and events beyond our control, such as uncertainty as to the U.S. debt ceiling, the continued funding of the U.S. government, U.S. fiscal and monetary policy, the U.S. housing market, oil prices and concerns about European sovereign debt risk and the European banking industry, have in the past, and may in the future, adversely affect liquidity, increase volatility, decrease asset prices, erode confidence and lead to wider credit spreads. Difficult economic conditions could also result in increased unemployment and a severe decline in business across a wide range of industries and regions. These market and economic factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity.

Under difficult economic or market conditions, we could experience reduced demand for our products and an elevated incidence of claims and lapses or surrenders of policies. Contract holders may choose to defer or cease paying insurance premiums. Other ways in which we could be negatively affected by economic conditions include, but are not limited to:

- declines in the valuation and performance of our investment portfolio, including declines attributable to rapid increases in interest rates;

- increased credit losses;

- declines in the value of other assets;
- impairments of goodwill and other long-lived assets;
- additional statutory capital requirements;
- limitations on our ability to recover deferred tax assets;
- a decline in new business levels and renewals;
- a decline in insured values caused by a decrease in activity at client organizations;
- an increase in liability for future policy benefits due to loss recognition on certain long-duration insurance contracts;
- higher borrowing costs and more limited availability of credit;
- an increase in policy surrenders and cancellations; and
- a write-off of deferred policy acquisition costs (DAC).

Sustained low interest rates may materially and adversely affect our profitability. Recent periods have been characterized by low interest rates relative to historical levels. Sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our investment portfolios. If a low interest rate environment persists, we may experience slower investment income growth. Due to practical and capital markets limitations, we may not be able to fully mitigate our interest rate risk by matching exposure of our assets relative to our liabilities. Continued low interest rates could also impair our ability to earn the returns assumed in the pricing and the reserving

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for our products at the time they were sold and issued. Changes in interest rates may be correlated with inflation trends, which would impact our loss trends.

Investment Portfolio, Concentration of Investments, Insurance and other Exposures

The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates. Our investment securities are subject to market risks and uncertainties. In particular, interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rates to rise, which would adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments, which may occur if interest rates rise, is a quantitative and qualitative process that is subject to significant management judgment. For a sensitivity analysis of our exposure to certain market risk factors, see Item 7. MD&A – Enterprise Risk Management – Market Risk Management. Furthermore, our alternative investment portfolio includes investments for which changes in fair value are reported through operating income and are therefore subject to significant volatility. In an economic downturn or declining market, the reduction in our investment income due to decreases in the fair value of alternative investments could have a material adverse effect on operating income.

Our investment portfolio is concentrated in certain segments of the economy. Our results of operations and financial condition have in the past been, and may in the future be, adversely affected by the degree of concentration in our investment portfolio. We have concentrations in real estate and real estate-related securities, including residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. We also have significant exposures to financial institutions and, in particular, to money center and global banks; certain industries, such as energy and utilities; U.S. state and local government issuers and authorities; PICC Group, PICC P&C and AerCap, as a result of our strategic investments; and Euro Zone financial institutions, governments and corporations. Events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may adversely affect our investments to the extent they are concentrated in such segments. Our ability to sell assets concentrated in such areas may be limited.

Concentration of our insurance and other risk exposures may have adverse effects. We may be exposed to risks as a result of concentrations in our insurance policies, derivatives and other obligations that we undertake for customers and counterparties. We manage these concentration risks by monitoring the accumulation of our exposures by factors such as exposure type, industry, geographic region, counterparty and other factors. We also seek to use reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits we wish to retain. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Also, our exposure may be so large that even a slightly adverse experience compared to our expectations may have a material adverse effect on our consolidated results of operations or financial condition, or result in additional statutory capital requirements for our subsidiaries.

Our valuation of investment securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations, financial condition and liquidity. During periods of market disruption, it may be difficult to value certain of our investment securities if trading becomes less frequent and/or market data becomes less observable. There may be cases where certain assets in normally active markets with significant observable data become inactive with insufficient observable data due to the financial environment or market conditions in effect at that time. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods that are more complex. These values may not be realized in a market transaction, may not reflect the value of the asset and may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value and/or an inability to realize that value in a market transaction or secured lending transaction may have a material adverse effect on our results of operations, financial condition and liquidity.

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Reserves and Exposures

Our consolidated results of operations, liquidity, financial condition and ratings are subject to the effects of natural and man-made catastrophic events. Events such as hurricanes, windstorms, flooding, earthquakes, acts of terrorism, explosions and fires, cyber-crimes, product defects, pandemic and other highly contagious diseases, mass torts and other catastrophes have adversely affected our business in the past and could do so in the future. In addition, we recognize the scientific consensus that climate change is a reality of increasing concern, indicated by higher concentrations of greenhouse gases, a warming atmosphere and ocean, diminished snow and ice, and sea level rise. We understand that climate change potentially poses a serious financial threat to society as a whole, with implications for the insurance industry in areas such as catastrophe risk perception, pricing and modeling assumptions. Because there is significant variability associated with the impacts of climate change, we cannot predict how physical, legal, regulatory and social responses may impact our business.

Such catastrophic events, and any relevant regulations, could expose us to:

- widespread claim costs associated with property, workers' compensation, A&H, business interruption and mortality and morbidity claims;

- loss resulting from a decline in the value of our invested assets;

- limitations on our ability to recover deferred tax assets;

- loss resulting from actual policy experience that is adverse compared to the assumptions made in product pricing;

- declines in value and/or losses with respect to companies and other entities whose securities we hold and counterparties we transact business with and have credit exposure to, including reinsurers, and declines in the value of investments; and

- significant interruptions to our systems and operations.

Catastrophic events are generally unpredictable. Our exposure to catastrophes depends on various factors, including the frequency and severity of the catastrophes, the rate of inflation and the value and geographic concentration of insured property and people. Vendor models and proprietary assumptions and processes that we use to manage catastrophe exposure may prove to be ineffective due to incorrect assumptions or estimates.

In addition, legislative and regulatory initiatives and court decisions following major catastrophes could require us to pay the insured beyond the provisions of the original insurance policy and may prohibit the application of a deductible, resulting in inflated catastrophe claims.

For further details on potential catastrophic events, including a sensitivity analysis of our exposure to certain catastrophes, see Item 7. MD&A — Enterprise Risk Management —Insurance Operations Risks.

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. We regularly review the adequacy of the established liability for unpaid losses and loss adjustment expenses and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business. These include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, Directors and Officers and products liability.

While we use a number of analytical reserve development techniques to project future loss development, reserves may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be due to difficulties in predicting changes, such as changes in inflation, unemployment duration, or other social or economic factors affecting claims, including the judicial environment. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years. For a further discussion of our loss reserves, see Item 7. MD&A — Insurance Reserves —Non-Life Insurance Companies and Critical Accounting Estimates — Insurance Liabilities — Liability for Unpaid Losses and Loss Adjustment Expenses (Non-Life Insurance Companies).

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Reinsurance may not be available or affordable and may not be adequate to protect us against losses. Our subsidiaries are major purchasers of reinsurance and we use reinsurance as part of our overall risk management strategy to optimize the allocation of our reinsurance between traditional reinsurance markets and the capital markets, such as through the utilization of catastrophe bonds, to manage risks more efficiently. While reinsurance does not discharge our subsidiaries from their obligation to pay claims for losses insured under our policies, it does make the reinsurer liable to them for the reinsured portion of the risk. For this reason, reinsurance is an important tool to manage transaction and insurance line risk retention and to mitigate losses from catastrophes. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. As a result, we may, at certain times, be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In that case, we would have to accept an increase in exposure risk, reduce the amount of business written by our subsidiaries or seek alternatives in line with our risk limits. Additionally, we are exposed to credit risk with respect to our subsidiaries' reinsurers to the extent the reinsurance receivable is not secured by collateral or does not benefit from other credit enhancements. We also bear the risk that a reinsurer may be unwilling to pay amounts we have recorded as reinsurance recoverable for any reason, including that (i) the terms of the reinsurance contract do not reflect the intent of the parties of the contract, (ii) the terms of the contract cannot be legally enforced, (iii) the terms of the contract are interpreted by a court or arbitration panel differently than intended, (iv) the reinsurance transaction performs differently than we anticipated due to a flawed design of the reinsurance structure, terms or conditions, or (v) a change in laws and regulations, or in the interpretation of the laws and regulations, materially impacts a reinsurance transaction. The insolvency of one or more of our reinsurers, or inability or unwillingness to make timely payments under the terms of our contracts, could have a material adverse effect on our results of operations and liquidity. Additionally, the use of catastrophe bonds may not provide the same levels of protection as traditional reinsurance transactions and any disruption, volatility and uncertainty in the catastrophe bond market, such as following a major catastrophe event, may limit our ability to access such market on terms favorable to us or at all. Also, to the extent that we intend to utilize catastrophe bond transactions based on an industry loss index rather than on actual losses incurred by us, this would result in residual risk. Our inability to obtain adequate reinsurance or other protection could have a material adverse effect on our business, results of operations and financial condition.

We currently have limited reinsurance coverage for terrorist attacks. Further, the availability of private sector reinsurance for terrorism is limited. As a result, we rely heavily on the Terrorism Risk Insurance Act (TRIA), which provides U.S. government risk assistance to the insurance industry to manage the exposure to terrorism incidents in the United States. TRIA was reauthorized in January 2015 and is scheduled to expire on December 31, 2020. Under TRIA, once our losses for certain acts of terrorism exceed a deductible equal to 20 percent of our commercial property and casualty insurance premiums for covered lines for the prior calendar year, the federal government will reimburse us for losses in excess of our deductible, starting at 85 percent of losses in 2015, and reducing by one percentage point each year, ending at 80 percent in 2020, up to a total industry program limit of $100 billion. TRIA does not cover losses in certain lines of business such as consumer property and consumer casualty.

For additional information on our reinsurance recoverable, see Item 7. MD&A — Enterprise Risk Management — Insurance Operations Risks — Reinsurance Recoverable.

LIQUIDITY, CAPITAL AND CREDIT

AIG Parent's ability to access funds from our subsidiaries is limited. As a holding company, AIG Parent depends on dividends, distributions and other payments from its subsidiaries to fund dividends on AIG Common Stock and to make payments due on its obligations, including its outstanding debt. The majority of our investments are held by our regulated subsidiaries. Our subsidiaries may be limited in their ability to make dividend payments or advance funds to AIG Parent in the future because of the need to support their own capital levels or because of regulatory limits. The inability of our subsidiaries to make payments, dividends or distributions in an amount sufficient to enable AIG Parent to meet its cash requirements could have an adverse effect on our operations, our ability to pay dividends or our ability to meet our debt service obligations.

Our internal sources of liquidity may be insufficient to meet our needs. We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. If our liquidity is insufficient to meet our needs, we may at the time need to have recourse to third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. The availability and cost of any additional financing at any given time depends on a variety of factors, including general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions and our credit ratings and credit capacity. It is also possible that, as a result of such recourse to external financing, customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, and downgrades in our credit ratings, may limit our ability to access external capital markets at times and on terms favorable to us to meet our capital and liquidity needs or prevent our accessing the external capital markets or other financing sources. For a further discussion of our liquidity, see Item 7. MD&A — Liquidity and Capital Resources.

AIG Parent's ability to support our subsidiaries is limited.AIG Parent has in the past and expects to continue to provide capital to our subsidiaries as necessary to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations. If AIG Parent is unable to satisfy a capital need of a subsidiary, the subsidiary could become insolvent or, in certain cases, could be seized by its regulator.

Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments. Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, investments in private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these assets had a fair value of $60 billion at December 31, 2014. Adverse real estate and capital markets, and tighter credit spreads, have in the past, and may in the future, materially adversely affect the liquidity of our other securities portfolios, including our residential and commercial mortgage related securities portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

A downgrade in the Insurer Financial Strength ratings of our insurance companies could prevent them from writing new business and retaining customers and business. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance subsidiaries.

A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing. A downgrade of our long-term debt ratings by the major rating agencies would require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of $153 million, and certain of our counterparties would be permitted to elect early termination of contracts.

Business and operations

Interest rate fluctuations, increased surrenders, declining investment returns and other events may require our subsidiaries to accelerate the amortization of DAC and record additional liabilities for future policy benefits. We incur significant costs in connection with acquiring new and renewal insurance business. DAC represents deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business. The recovery of DAC is generally dependent upon the future profitability of the related business, but DAC amortization varies based on the type of contract. For long-duration traditional business, DAC is generally amortized in proportion to premium revenue and varies with lapse experience. Actual lapses in excess of expectations can result in an acceleration of DAC amortization.

DAC for investment-oriented products is generally amortized in proportion to estimated gross profits. Estimated gross profits are affected by a number of assumptions, including current and expected interest rates, net investment income and spreads, net realized gains and losses, fees, surrender rates, mortality experience and equity market returns and volatility. If actual and/or future estimated gross profits are less than originally expected, then the amortization of DAC would be accelerated in the period the actual experience is known and would result in a charge to income. For example, if interest rates rise rapidly and significantly, customers with policies that have interest crediting rates below the current market may seek competing products with higher returns and we may experience an increase in surrenders and withdrawals of life and annuity contracts, resulting in a decrease in future profitability and an acceleration of the amortization of DAC.

We also periodically review products for potential loss recognition events, principally insurance-oriented products. This review involves estimating the future profitability of in-force business and requires significant management judgment about assumptions including mortality, morbidity, persistency, maintenance expenses, and investment returns, including net realized capital gains (losses). If actual experience or estimates result in projected future losses, we may be required to amortize any remaining DAC and record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations. For example, realized gains on investment sales in 2013 and 2012 reduced future investment margins and required the recognition of additional liabilities for certain payout annuities. For further discussion of DAC and future policy benefits, see Item 7. MD&A — Critical Accounting Estimates and Notes 9 and 13 to the Consolidated Financial Statements.

Certain of our products have guarantees that may increase the volatility of our results. We have annuity and life insurance products that guarantee a certain level of benefits, including guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB), guaranteed minimum account value benefits (GMAV), and products with guaranteed interest crediting rates tied to an index. For GMDB, our most widely offered guaranteed benefit feature, the liabilities included in Future policyholder benefits were $401 million and $355 million at December 31, 2014 and 2013, respectively. Our economic hedging program utilizes derivative instruments, including equity options, futures contracts and interest rate swap contracts, as well as other hedging instruments, and is designed so that changes in value of those instruments move in the opposite direction of changes in the GMWB and GMAV embedded derivative liabilities. The fair value of GMWB and GMAV embedded derivatives included in Policyholder contract deposits was a net liability of $957 million at December 31, 2014 and a net asset of $37 million at December 31, 2013. Differences between the change in fair value of GMWB and GMAV embedded derivatives and the hedging instruments can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior and our inability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. While we believe that our actions have reduced the risks related to guaranteed benefits and guaranteed interest crediting, our exposure may not be fully hedged, and we may be liable if counterparties are unable or unwilling to pay. We remain exposed to the risk that policyholder behavior and mortality may differ from our assumptions. Finally, while we believe the impact of downturns in equity markets, increased equity volatility or reduced interest rates is offset by our economic hedging program, the occurrence of one or more of these events could result in an increase in the liabilities associated with the guaranteed benefits, reducing our net income and shareholders' equity. See Notes 5 and 14 to the Consolidated Financial Statements and Item 7. MD&A – Critical Accounting Estimates for more information regarding these products.

Indemnity claims could be made against us in connection with divested businesses. We have provided financial guarantees and indemnities in connection with the businesses we have sold, as described in greater detail in Note 16 to the Consolidated Financial Statements. While we do not currently believe the claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim or claims were successful, it could have a material adverse effect on our results of operations, cash flows and liquidity. See Note 16 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

Our foreign operations expose us to risks that may affect our operations. We provide insurance, investment and other financial products and services to both businesses and individuals in more than 100 countries and jurisdictions. A substantial portion of our business is conducted outside the United States, and we intend to continue to grow this business. Operations outside the United States may be affected by regional economic downturns, changes in foreign currency exchange rates, political upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Consequently, our insurance subsidiaries could be prevented from conducting future business in some of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, depending on the magnitude of the event and our financial exposure at that time in that country.

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We may experience difficulty in marketing and distributing products through our current and future distribution channels. Although we distribute our products through a wide variety of distribution channels, we maintain relationships with certain key distributors. Distributors have in the past, and may in the future, elect to renegotiate the terms of existing relationships, or reduce or terminate their distribution relationships with us, including for such reasons as industry consolidation of distributors or other industry changes that increase the competition for access to distributors, adverse developments in our business, adverse rating agency actions or concerns about market-related risks. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our businesses, operating results and financial condition.

In addition, when our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution, despite our training and compliance programs. If our products are distributed to customers for whom they are unsuitable or distributed in any other inappropriate manner, we may suffer reputational and other harm to our business.

Our ownership of a material amount of the common stock of, and our obligations to, AerCap exposes us to risks. As a result of the AerCap Transaction, we hold approximately 46 percent of the outstanding common stock of AerCap. As a result, declines in the value of AerCap's common stock, and the other effects of our accounting for this investment under the equity method of accounting, could have a material adverse effect on our results of operations in a reporting period.

In addition, in connection with the AerCap Transaction, AIG, AerCap, AerCap Ireland Limited, AerCap Ireland Capital Limited (AerCap Ireland) and certain subsidiaries of AerCap, as guarantors, entered into a credit agreement for a senior unsecured revolving credit facility between AerCap Ireland, as borrower, and AIG, as lender and administrative agent (the AerCap Credit Facility). The AerCap Credit Facility provides for an aggregate commitment of $1.0 billion and permits loans for general corporate purposes. Depending on the amount of outstanding borrowings under the AerCap Credit Facility, an event of default under the AerCap Credit Facility could have a material adverse effect on our results of operations and financial condition.

Significant legal proceedings may adversely affect our results of operations or financial condition. We are party to numerous legal proceedings, including securities class actions and regulatory and governmental investigations. Due to the nature of these proceedings, the lack of precise damage claims and the type of claims we are subject to, we cannot currently quantify our ultimate or maximum liability for these actions. Developments in these unresolved matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period. Starr International Company, Inc. (SICO) has brought suit against the United States challenging the government's assistance of AIG, pursuant to which (i) AIG entered into a credit facility with the Federal Reserve Bank of New York and (ii) the United States received an approximately 80 percent ownership interest in AIG. The United States has alleged that AIG is obligated to indemnify the United States for any recoveries in these lawsuits. A determination that the United States is liable for damages in such suits, together with a determination that AIG is obligated to indemnify the United States for any such damages, could have a material adverse effect on our business, consolidated financial condition and results of operations. For a discussion of the SICO litigation and other unresolved matters, see Note 16 to the Consolidated Financial

Statements.

If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations. We use computer systems to store, retrieve, evaluate and utilize customer, employee, and company data and information. Some of these systems in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions, including providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, unauthorized access, a terrorist attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems have in the past been, and may in the future be, subject to unauthorized access, such as physical or electronic break-ins or unauthorized tampering. Like other global companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks, unauthorized access, systems failures and disruptions. There is no assurance that our security measures will provide fully effective security from such events. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the consequences of personal, confidential or proprietary information being compromised. In

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some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information. Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

The integration of companies we may acquire from time to time may not be as successful as we anticipate. Acquisitions involve a number of risks, including operational, strategic, financial, accounting, legal and tax. Difficulties in integrating an acquired company may result in the acquired company performing differently than we expected or in our failure to realize anticipated expense-related efficiencies. Our existing businesses could also be negatively impacted by acquisitions. Risks resulting from future acquisitions may have a material adverse effect on our results of operations and financial condition.

REGULATION

Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability. Our operations generally, and our insurance subsidiaries, in particular, are subject to extensive and potentially conflicting supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. State and foreign regulators also periodically review and investigate our insurance businesses, including AIG-specific and industry-wide practices. The primary purpose of insurance regulation is the protection of our insurance contract holders, and not our investors. The extent of domestic regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments.

We strive to maintain all required licenses and approvals. However, our businesses may not fully comply with the wide variety of applicable laws and regulations. The relevant authority's interpretation of the laws and regulations also may change from time to time. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals or do not comply with applicable regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit them to supervise the business and operations of an insurance company.

In the U.S., the RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the NAIC, which specifies the regulatory actions the insurance regulator may take if an insurer's RBC calculations fall below specific thresholds. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio to a mandatory regulatory takeover of the company. Regulators at the federal and international levels are also considering the imposition of additional capital requirements on certain insurance companies, which may include us, that may augment or even displace state-law RBC standards that apply at the legal entity level, and such capital calculations may be made on bases other than the statutory statements of our insurance subsidiaries. See "Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows" and "Actions by foreign governments and regulators could subject us to substantial additional regulation" below for additional information on increased capital requirements that may be imposed on us. We cannot predict the effect these initiatives may have on our business, results of operations, cash flows and financial condition.

The degree of regulation and supervision in foreign jurisdictions varies. AIG subsidiaries operating in foreign jurisdictions must satisfy local regulatory requirements and it is possible that local licenses may require AIG Parent to meet certain conditions. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Accordingly, our insurance

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subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, liquidity and financial condition, depending on the magnitude of the event and our financial exposure at that time in that country.

See Item 1. Business – Regulation for further discussion of our regulatory environment.

Our status as a nonbank systemically important financial institution, as well as the enactment of Dodd-Frank, will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations and cash flows. On July 21, 2010, Dodd-Frank, which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years.

We cannot predict the requirements of the regulations ultimately adopted, the level and magnitude of supervision we may become subject to, or how Dodd-Frank and such regulations will affect the financial markets generally or our businesses, results of operations or cash flows. It is possible that the regulations adopted under Dodd-Frank and our regulation by the FRB as a nonbank SIFI could significantly alter our business practices, limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome and costly requirements and additional costs. Some of the regulations may also affect the perceptions of regulators, customers, counterparties, creditors or investors about our financial strength and could potentially affect our financing costs.

See Item 1. Business – Regulation for further discussion of the details of the aforementioned regulations to which AIG and its businesses are subject.

Actions by foreign governments and regulators could subject us to substantial additional regulation. We cannot predict the impact laws and regulations adopted in foreign jurisdictions may have on the financial markets generally or our businesses, results of operations or cash flows. It is possible such laws and regulations, the impact of our designation as a global systemically important insurer (G-SII) and certain initiatives by the FSB and the IAIS, including development of Basic Capital Requirements, Higher Loss Absorbency Capacity Requirements and an Insurance Capital Standard, and implementation of Solvency II in the European Union, may significantly alter our business practices, limit our ability to engage in capital or liability management, require us to raise additional capital, and impose burdensome requirements and additional costs. It is possible that the laws and regulations adopted in foreign jurisdictions will differ from one another and that they could be inconsistent with the laws and regulations of other jurisdictions including the United States.

For further details on these international regulations and their potential impact on AIG and its businesses, see Item 1. Business – Regulation—Other Regulatory Developments.

The USA PATRIOT Act, the Office of Foreign Assets Control and similar laws that apply to us may expose us to significant penalties. The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although we have instituted compliance programs to address these requirements, there are inherent risks in global transactions.

Attempts to efficiently manage the impact of Regulation XXX and Actuarial Guideline AXXX may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations. The NAIC Model Regulation "Valuation of Life Insurance Policies" (Regulation XXX) requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, NAIC Actuarial Guideline 38 (AXXX) (Guideline AXXX) clarifies the application of Regulation XXX as to certain universal life insurance policies with secondary guarantees.

Our domestic Life Insurance Companies manage the capital impact of statutory reserve requirements under Regulation XXX and Guideline AXXX through affiliated reinsurance transactions, to maintain their ability to offer competitive pricing and successfully market such products. See Note 20 to the Consolidated Financial Statements for additional information on

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statutory reserving requirements under Regulation XXX and Guideline AXXX and our use of affiliated reinsurance. The NAIC, the New York State Department of Financial Services and other regulators have increased their focus on life insurers' affiliated reinsurance transactions used to satisfy certain reserve requirements or to manage the capital impact of certain statutory reserve requirements, particularly transactions using captive insurance companies or special purpose vehicles. While our domestic Life Insurance Companies do not use captive or special purpose vehicle structures for this purpose, we cannot predict whether any applicable insurance laws will be changed in a way that prohibits or adversely impacts the use of affiliated reinsurance. If regulations change, we could be required to increase statutory reserves, increase prices on our products or incur higher expenses to obtain reinsurance, which could adversely affect our competitive position, financial condition or results of operations. If our actions to efficiently manage the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products are not successful, we may incur higher operating costs or our sales of these products may be affected.

New regulations promulgated from time to time may affect our businesses, results of operations, financial condition and ability to compete effectively. Legislators and regulators may periodically consider various proposals that may affect the profitability of certain of our businesses. New regulations may even affect our ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions. These proposals could also impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities, geography, government support or other criteria). It is uncertain whether and how these and other such proposals would apply to us or our competitors or how they could impact our consolidated results of operations, financial condition and ability to compete effectively.

An "ownership change" could limit our ability to utilize tax loss and credit carryforwards to offset future taxable income. As of December 31, 2014, we had a U.S. federal net operating loss carryforward of approximately $33.0 billion and $7.1 billion in foreign tax credits (tax loss and credit carryforwards). Our ability to use such tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax loss and credit carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax loss and credit carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an "ownership change", it is possible that a significant portion of our tax loss and credit carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board adopted our Tax Asset Protection Plan (the Plan) to help protect these tax loss and credit carryforwards, and on January 8, 2014, the Board adopted an amendment to the Plan, extending its expiration date to January 8, 2017. The amendment of the Plan was ratified by our shareholders at our 2014 Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, shareholders adopted a protective amendment to our Restated Certificate of Incorporation (Protective Amendment), which is designed to prevent certain transfers of AIG Common Stock that could result in an “ownership change.” At our 2014 Annual Meeting of Shareholders, our shareholders approved an amendment to our Restated Certificate of Incorporation to adopt a successor to the Protective Amendment that contains substantially the same terms as the Protective Amendment and that expires on May 12, 2017, the third anniversary of the date of our 2014 Annual Meeting of Shareholders.

The Plan is designed to reduce the likelihood of an “ownership change” by (i) discouraging any person or group from becoming a 4.99 percent shareholder and (ii) discouraging any existing 4.99 percent shareholder from acquiring additional shares of AIG Common Stock. The Protective Amendment generally restricts any transfer of AIG Common Stock that would (i) increase the ownership by any person to 4.99 percent or more of AIG stock then outstanding or (ii) increase the percentage of AIG stock owned by a Five Percent Stockholder (as defined in the Plan). Despite the intentions of the Plan and the Protective Amendment to deter and prevent an “ownership change”, such an event may still occur. In addition, the Plan and the Protective Amendment may make it more difficult and more expensive to acquire us, and may discourage open market purchases of AIG Common Stock or a non-negotiated tender or exchange offer for AIG Common Stock. Accordingly, the Plan

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and the Protective Amendment may limit a shareholder's ability to realize a premium over the market price of AIG Common Stock in connection with any stock transaction.

Changes in tax laws could increase our corporate taxes, reduce our deferred tax assets or make some of our products less attractive to consumers. Changes in tax laws or their interpretation could negatively impact our business or results. Some proposed changes could have the effect of increasing our effective tax rate by reducing deductions or increasing income inclusions, such as by limiting rules allowing deferral of tax on certain foreign insurance income. Conversely, other changes, such as lowering the U.S. federal corporate tax rate discussed recently in the context of tax reform, could reduce the value of our deferred tax assets. In addition, changes in the way foreign taxes can be credited against U.S. taxes, methods for allocating interest expense, the ways insurance companies calculate and deduct reserves for tax purposes, and impositions of new or changed premium, value added and other indirect taxes could increase our tax expense, thereby reducing earnings.

In addition to proposing to change the taxation of corporations in general and insurance companies in particular, the Executive Branch of the U.S. Government and Congress have considered proposals that could increase taxes on owners of insurance products. For example, there have been proposals that would have limited the deferral of tax on income from life and annuity contracts relative to other investment products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, or cause consumers to shift from these contracts to other investments, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

The need for governments to seek additional revenue makes it likely that there will be continued proposals to change tax rules in ways that would reduce our earnings. However, it remains difficult to predict whether or when there will be any tax law changes having a material adverse effect on our financial condition or results of operations.

COMPETITION and employees

We face intense competition in each of our businesses. Our businesses operate in highly competitive environments, both domestically and overseas. Our principal competitors are other large multinational insurance organizations, as well as banks, investment banks and other nonbank financial institutions. The insurance industry in particular is highly competitive. Within the U.S., our Non-Life Insurance Companies compete with other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. Our Life Insurance Companies compete in the U.S. with life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

The past reduction of our credit ratings and past negative publicity have made, and may continue to make, it more difficult to compete to retain existing customers and to maintain our historical levels of business with existing customers and counterparties. General insurance and life insurance companies compete through a combination of risk acceptance criteria, product pricing, and terms and conditions. Retirement services companies compete through crediting rates and the issuance of guaranteed benefits. A decline in our position as to any one or more of these factors could adversely affect our profitability.

Competition for employees in our industry is intense, and we may not be able to attract and retain the highly skilled people we need to support our business. Our success depends, in large part, on our ability to attract and retain key people. Due to the intense competition in our industry for key employees with demonstrated ability, we may be unable to hire or retain such employees. Losing any of our key people also could have a material adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining key employees.

Managing key employee succession and retention is critical to our success. We would be adversely affected if we fail to adequately plan for the succession of our senior management and other key employees. While we have succession plans and long-term compensation plans designed to retain our employees, our succession plans may not operate effectively and our compensation plans cannot guarantee that the services of these employees will continue to be available to us.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses. There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, misuse of customer or proprietary information, or failure to comply with regulatory requirements or our internal policies may result in losses. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

ESTIMATES AND ASSUMPTIONS

Estimates used in the preparation of financial statements and modeled results used in various areas of our business may differ materially from actual experience. Our financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP), which requires the application of accounting policies that often involve a significant degree of judgment. The accounting policies that we consider most dependent on the application of estimates and assumptions, and therefore may be viewed as critical accounting estimates, are described in Item 7. MD&A — Critical Accounting Estimates. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates are based on judgment, current facts and circumstances, and, when applicable, internally developed models. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on our consolidated financial statements.

In addition, we employ models to price products, calculate reserves and value assets, as well as evaluate risk and determine capital requirements, among other uses. These models rely on estimates and projections that are inherently uncertain, may use incomplete, outdated or incorrect data or assumptions and may not operate properly. As our businesses continue to expand and evolve, the number and complexity of models we employ has grown, increasing our exposure to error in the design, implementation or use of models, including the associated input data, controls and assumptions and the controls we have in place to mitigate their risk may not be effective in all cases.

Changes in accounting principles and financial reporting requirements could impact our reported results of operations and our reported financial position. Our financial statements are subject to the application of U.S. GAAP, which is periodically revised. Accordingly, from time to time, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the Financial Accounting Standards Board (FASB). The impact of accounting pronouncements that have been issued but are not yet required to be implemented is disclosed in Note 2 to the Consolidated Financial Statements.

The FASB and International Accounting Standards Board (IASB) have ongoing projects to revise accounting standards for insurance contracts. The FASB has focused on disclosures for short-duration insurance contracts, which primarily relate to our property casualty products, and on targeted improvements to accounting measurements and disclosures for long-duration insurance contracts, which primarily relate to our life and annuity products. The IASB continues to contemplate significant changes to accounting measurements for both short and long-duration insurance contracts. While the final resolution of changes to U.S. GAAP and International Financial Reporting Standards pursuant to these projects remains unclear, changes to the manner in which we account for insurance products could have a significant impact on our future financial reports, operations, capital management and business. Further, the adoption of a new insurance contracts standard as well as other future accounting standards could have a material effect on our reported results of operations and reported financial condition.

Changes in our assumptions regarding the discount rate, expected rate of return, and expected compensation for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability. We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets, expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce our profitability. See Note 22 to the Consolidated Financial Statements for further details on our pension and postretirement benefit plans.

ITEM 1B / UNRESOLVED STAFF COMMENTS

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of our fiscal year relating to periodic or current reports under the Exchange Act.

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ITEM 2 / PROPERTIES

We operate from approximately 400 offices in the United States and approximately 500 offices in over 75 foreign countries. The following offices are located in buildings in the United States owned by us:

Non-Life Insurance Companies:	Life Insurance Companies:
• Wilmington, Delaware • Stevens Point, Wisconsin • Greensboro and Winston-Salem, North Carolina	• Amarillo and Houston, Texas
Corporate and Other: • 175 Water Street in New York, New York • Livingston, New Jersey • Stowe, Vermont • Ft. Worth, Texas	

In addition, Non-Life Insurance Companies own offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the U.K., Taiwan, and Venezuela. The remainder of the office space we utilize is leased. We believe that our leases and properties are sufficient for our current purposes.

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2014, approximately 10 percent of our consolidated assets were located outside the U.S. and Canada, including $608 million of cash and securities on deposit with regulatory authorities in those locations. See Note 3 to the Consolidated Financial Statements for additional geographic information. See Note 6 to the Consolidated Financial Statements for total carrying amounts of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities.

Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon us vary from country to country and cannot be predicted. If expropriation or nationalization does occur, our policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which our business is conducted have currency restrictions that generally cause a delay in a company’s ability to repatriate assets and profits. See also Item 1A. Risk Factors — Business and Operations for additional information.

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ITEM 3 / LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 16 — Contingencies, Commitments and Guarantees to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4 / MINE SAFETY DISCLOSURES

Not applicable.

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Part II

ITEM 5 / MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

AIG’s common stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG), as well as on the Tokyo Stock Exchange. There were approximately 31,585 stockholders of record of AIG Common Stock as of February 12, 2015.

The following table presents high and low closing sale prices of AIG Common Stock on the New York Stock Exchange Composite Tape for each quarter of 2014 and 2013, and the dividends declared per share during those periods:

	2014			2013		
	High	**Low**	**Dividends**	High	Low	Dividends
First quarter	**$ 52.22**	**$ 46.88**	**$ 0.125**	$ 39.58	$ 34.84	$ -
Second quarter	**55.72**	**49.40**	**0.125**	46.21	37.69	-
Third quarter	**56.33**	**51.98**	**0.125**	50.57	44.22	0.10
Fourth quarter	**56.51**	**49.40**	**0.125**	52.30	47.30	0.10

Dividends

On February 12, 2015, our Board of Directors declared a cash dividend on AIG Common Stock of $0.125 per share, payable on March 26, 2015 to shareholders of record on March 12, 2015.

Any payment of dividends must be approved by AIG’s Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG’s financial position, the performance of our businesses, our consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, and other factors. AIG may become subject to restrictions on the payment of dividends and purchases of AIG Common Stock as a nonbank SIFI and a G-SII. See Item 1. Business — Regulation and Item 1A. Risk Factors — Regulation for further discussion.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors — Liquidity, Capital and Credit — AIG Parent’s ability to access funds from our subsidiaries is limited, and Note 20 to the Consolidated Financial Statements.

EQUITY COMPENSATION PLANS

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2015 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG's fiscal year pursuant to Regulation 14A.

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PURCHASES OF EQUITY SECURITIES

The following table provides the information with respect to purchases made by or on behalf of AIG or any “affiliated purchaser” (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of AIG Common Stock during the three months ended December 31, 2014:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Share that May Yet Be Purchased Under th Plans or Programs (in million
October 1 - 31	3,868,300	$ 54.52	3,868,300	$ 1,50
November 1 - 30	10,176,278	54.03	10,176,278	75
December 1 - 31	13,816,007	54.80	13,816,007	
Total	27,860,585	$ 54.48	27,860,585	$

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to $1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. On February 13, 2014, June 5, 2014 and October 31, 2014, our Board of Directors authorized increases to the August 1, 2013 repurchase authorization of AIG Common Stock of an aggregate of $4.5 billion.

During the three-month period ended December 31, 2014, we repurchased approximately 27.9 million shares of AIG Common Stock under this authorization for an aggregate purchase price of approximately $1.5 billion.

The total number of shares of AIG Common Stock repurchased in the three-month period ended December 31, 2014, and the aggregate purchase price of those shares, each as set forth above, reflect our payment of $1.4 billion under two ASR agreements executed in the fourth quarter of 2014 and the receipt of approximately 22.2 million shares of AIG Common Stock, including the initial receipt of 70 percent of the total notional share equivalent, or approximately 9.2 million shares of AIG Common Stock, under an ASR agreement executed in December 2014. That ASR agreement settled in January 2015, at which time we received approximately 3.5 million additional shares of AIG Common Stock based on a formula specified by the terms of the ASR Agreement. The total number of shares of AIG Common Stock repurchased in the three-month period ended December 31, 2014 also includes (but the aggregate purchase price does not include) approximately 3.9 million shares of AIG Common Stock received in October 2014 upon the settlement of an ASR agreement executed in the third quarter of 2014.

On February 12, 2015, our Board of Directors authorized an additional increase to the August 1, 2013 repurchase authorization of AIG Common Stock of $2.5 billion, resulting in an aggregate remaining authorization on such date of approximately $2.5 billion. Shares may be repurchased from time to time under this authorization in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. The timing of any future share repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

See Note 17 to the Consolidated Financial Statements for additional information on AIG share purchases.

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common Stock PERFORMANCE GRAPH

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2009 to December 31, 2014) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies consisting of 15 insurance companies to which we compare our business and operations:

- ACE Limited
- AEGON, N.V.
- Aflac Incorporated
- Allianz Group
- AXA Group
- The Chubb Corporation
- CNA Financial Corporation
- The Hartford Financial Services Group, Inc.
- Lincoln National Corporation
- MetLife, Inc.
- Principal Financial Group, Inc.
- Prudential Financial, Inc.
- The Travelers Companies, Inc.
- XL Capital Ltd.
- Zurich Insurance Group

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Value of $100 Invested on December 31, 2009

Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization.

	As of December 31,					
	2009	2010	2011	2012	2013	**2014**

AIG	$ 100.00	$ 192.19	$ 94.28	$ 143.45	$ 208.29	$ 230.67
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14
Peer Group	100.00	108.02	93.68	120.29	178.80	180.92

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Item 6 / Selected financial data

ITEM 6 / SELECTED FINANCIAL DATA

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein.

	Years Ended December 31,				
(in millions, except per share data)	**2014**	2013	2012	2011	2010
Revenues:					
Premiums	**$ 37,254**	$ 37,499	$ 38,189	$ 39,026	$ 45,352
Policy fees	**2,615**	2,340	2,192	2,197	2,334
Net investment income	**16,079**	15,810	20,343	14,755	20,934
Net realized capital gains (losses)	**739**	1,939	1,087	803	(763)
Aircraft leasing revenue	**1,602**	4,420	4,504	4,508	4,749
Other income	**6,117**	6,866	4,899	3,861	5,720
Total revenues	**64,406**	68,874	71,214	65,150	78,326
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**28,281**	29,503	32,036	33,523	41,429
Interest credited to policyholder account balances	**3,768**	3,892	4,340	4,432	4,483
Amortization of deferred policy acquisition costs	**5,330**	5,157	5,709	5,486	5,821
General operating and other expenses	**13,138**	13,564	13,013	11,783	14,358
Interest expense	**1,718**	2,142	2,319	2,444	6,742
Net loss on extinguishment of debt	**2,282**	651	32	2,908	104
Aircraft leasing expenses	**1,585**	4,549	4,138	5,401	5,289
Net (gain) loss on sale of properties and divested businesses	**(2,197)**	48	6,736	74	(19,566)
Total benefits, losses and expenses	**53,905**	59,506	68,323	66,051	58,660
Income (loss) from continuing operations before income taxes [(a)]	**10,501**	9,368	2,891	(901)	19,666
Income tax expense (benefit)	**2,927**	360	(808)	(19,764)	6,736
Income from continuing operations	**7,574**	9,008	3,699	18,863	12,930
Income (loss) from discontinued operations, net of taxes	**(50)**	84	1	2,467	(645)
Net income	**7,524**	9,092	3,700	21,330	12,285
Net income (loss) from continuing operations attributable to noncontrolling interests:	**(5)**	7	262	708	10,058
Net income attributable to AIG	**7,529**	9,085	3,438	20,622	10,058
Income per common share attributable to AIG					

common shareholders					
Basic					
Income from continuing operations	**5.31**	6.11	2.04	9.65	16.02
Income (loss) from discontinued operations	**(0.04)**	0.05	-	1.36	(1.04)
Net income attributable to AIG	**5.27**	6.16	2.04	11.01	14.98
Diluted					
Income from continuing operations	**5.24**	6.08	2.04	9.65	16.02
Income (loss) from discontinued operations	**(0.04)**	0.05	-	1.36	(1.04)
Net income attributable to AIG	**5.20**	6.13	2.04	11.01	14.98
Dividends declared per common share	**0.50**	0.20	-	-	-
Year-end balance sheet data:					
Total investments	**355,766**	356,428	375,824	410,438	410,412
Total assets	**515,581**	541,329	548,633	553,054	675,573
Long-term debt	**31,217**	41,693	48,500	75,253	106,461
Total liabilities	**408,309**	440,218	449,630	442,138	568,363
Total AIG shareholders' equity	**106,898**	100,470	98,002	101,538	78,856
Total equity	**107,272**	101,081	98,669	102,393	106,776
Book value per share[(b)]	**77.69**	68.62	66.38	53.53	561.40
Book value per share, excluding Accumulated other comprehensive income (loss)[(b)]	**69.98**	64.28	57.87	50.11	498.25

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Item 6 / Selected financial data

	Years Ended December 31,				
(in millions, except per share data)	**2014**	2013	2012	2011	2010
Other data (from continuing operations):					
Other-than-temporary impairments	**247**	232	1,050	1,142	2,834
Adjustment to federal deferred tax valuation allowance	**(181)**	(3,165)	(1,907)	(18,307)	1,361
Amortization of prepaid commitment fee asset	**-**	-	-	49	3,471
Catastrophe-related losses[(c)]	**$ 728**	$ 787	$ 2,652	$ 3,307	$ 1,076

(a) Reduced by fourth quarter reserve strengthening charges of $4.2 billion in 2010 related to the annual review of our property casualty businesses liability for unpaid losses and loss adjustment expenses.

(b) Book value per share, excluding Accumulated other comprehensive income (loss) is a non-GAAP measure. See Item 7. MD&A — Use of Non GAAP Measures for additional information. Comparability of 2010 is affected by a one for twenty reverse stock split.

(c) Catastrophe-related losses are generally weather or seismic events having a net impact on our property casualty businesses in excess of $10 million each.

The following are significant developments that affected multiple periods and financial statement captions. Other items that affected comparability are included in the footnotes to the table presented immediately above.

Adjustments to Federal Deferred Tax Valuation Allowance

We concluded that $18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statements of Income in 2011. The valuation allowance resulted primarily from losses subject to U.S. income taxes recorded from 2008 through 2010. See Note 24 to the Consolidated Financial Statements for further discussion.

Capitalization and Book Value Per Share

On January 14, 2011, we completed a series of integrated transactions to recapitalize AIG (the Recapitalization) with the Department of the Treasury, the FRBNY and AIG Credit Facility Trust, including the repayment of all amounts owed under the Credit Facility with the FRBNY (the FRBNY Credit Facility). As a result of the closing of the Recapitalization on January 14, 2011, the remaining preferred interests (the SPV Preferred Interests) in the special purpose vehicles that held remaining AIA Group Limited (AIA) shares and the proceeds of the AIA initial public offering and the American Life Insurance Company (ALICO) sale (the AIA SPV and ALICO SPV, respectively) held by the FRBNY of approximately $26.4 billion were purchased by AIG and transferred to the Department of the Treasury. The SPV Preferred Interests were no longer considered permanent equity on AIG's Consolidated Balance Sheets, and were classified as redeemable noncontrolling interests. See Note 18 to the Consolidated Financial Statements for further discussion.

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Item 6 / Selected financial data

The following table presents pro forma ratios as if the Recapitalization had been consummated in 2010 and a reconciliation of book value per share to book value per share, excluding Accumulated other comprehensive income (loss), which is a non-GAAP measure. See Item 7. MD&A — Use of Non GAAP Measures for additional information.*

	At December 31,				
(in millions, except per share data)	**2014**	2013	2012	2011	201
Total AIG shareholders' equity	**$ 106,898**	$ 100,470	$ 98,002	$ 101,538	$ 78,85
Recapitalization	**-**	-	-	-	(3,328
Value on conversion of equity units	**-**	-	-	-	2,16
Pro forma shareholders' equity	**106,898**	100,470	98,002	101,538	77,69
Accumulated other comprehensive income	**10,617**	6,360	12,574	6,481	8,87
Total AIG shareholders' equity, excluding accumulated other comprehensive income	**$ 96,281**	$ 94,110	$ 85,428	$ 95,057	$ 69,98
Total common shares outstanding	**1,375,926,971**	1,464,063,323	1,476,321,935	1,896,821,482	140,463,15
Issuable for equity units	**-**	-	-	-	2,854,06
Shares assumed converted	**-**	-	-	-	1,655,037,96
Pro forma common shares outstanding	**1,375,926,971**	1,464,063,323	1,476,321,935	1,896,821,482	1,798,355,19
Book value per common share	**$ 77.69**	$ 68.62	$ 66.38	$ 53.53	$ 561.4
Book value per common share, excluding accumulated other comprehensive income	**$ 69.98**	$ 64.28	$ 57.87	$ 50.11	$ 498.2
Pro forma book value per share	**N/A**	N/A	N/A	N/A	$ 43.2
Pro forma book value per share, excluding accumulated other comprehensive income	**N/A**	N/A	N/A	N/A	$ 38.2

* Amounts for periods after December 31, 2010 have been revised to reflect reclassification of income taxes from AOCI to additional paid in capital to correct the presentation of components of AIG shareholders' equity. These income tax items related to the creation in 2009 of special purpose vehicles that held our interests in AIA and ALICO. There was no effect on Total AIG shareholders' equity or on Total equity as a result of this reclassification.

FRBNY Activity and Effect on Interest Expense in 2010

The decline in interest expense in 2010 was due primarily to a reduced weighted-average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset related to the partial repayment of the FRBNY Credit Facility. On January 14, 2011, AIG repaid the remaining $20.7 billion and terminated this facility, resulting in a net $3.3 billion pretax charge in the first quarter of 2011, representing primarily the accelerated amortization of the remaining prepaid commitment fee asset included in Net loss on extinguishment of debt.

As a result of the closing of the Recapitalization on January 14, 2011, the SPV Preferred Interests in the special purpose vehicles that held remaining AIA shares and the proceeds of the AIA initial public offering and the ALICO sale (the SPVs) were transferred to the Department of the Treasury. After such closing, the SPV Preferred Interests were not considered permanent equity on AIG’s Consolidated Balance Sheets and were classified as redeemable noncontrolling interests.

Asset Dispositions in 2011 and 2014

We completed the sale of ILFC on May 14, 2014, as further discussed in Note 4 to the Consolidated Financial Statements, and executed multiple asset dispositions in 2011.

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ITEM 7 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

- exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers, sovereign bond issuers, the energy sector and currency exchange rates;
- exposure to European governments and European financial institutions;
- strategy for risk management;
- generation of deployable capital;
- return on equity and earnings per share;
- strategies to grow net investment income, efficiently manage capital and reduce expenses;
- strategies for customer retention, growth, product development, market position, financial results and reserves; and
- the revenues and combined ratios of our subsidiaries.

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

- changes in market conditions;
- the occurrence of catastrophic events, both natural and man-made;
- significant legal proceedings;
- the timing and applicable requirements of any new regulatory framework to which we are subject as a nonbank systemically important financial institution (SIFI) and as a global systemically important insurer
- judgments concerning casualty insurance underwriting and insurance liabilities;
- judgments concerning the recognition of deferred tax assets; and
- such other factors discussed in:
- Part I, Item 1A. Risk Factors of this Annual Report on Form 10 K; and

(G SII);

• concentrations in our investment portfolios;

• actions by credit rating agencies;

• this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) of this Annual Report on Form 10 K.

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

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The MD&A is organized as follows:

Throughout the MD&A, we use certain terms and abbreviations which are summarized in the Glossary and Acronyms.

We have incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report on Form 10-K to assist readers seeking additional information related to a particular subject.

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Item 7 / use of non-gaap measures

In Item 6. Selected Financial Data and throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful and representative of our business results. Some of the measurements we use are “non GAAP financial measures” under SEC rules and regulations. GAAP is the acronym for “accounting principles generally accepted in the United States.” The non GAAP financial measures we present may not be comparable to similarly named measures reported by other companies.

Book Value Per Share Excluding Accumulated Other Comprehensive Income (AOCI) is used to show the amount of our net worth on a per share basis. We believe Book Value Per Share Excluding AOCI is useful to investors because it eliminates the effect of non cash items that can fluctuate significantly from period to period, including changes in fair value of our available for sale securities portfolio and foreign currency translation adjustments. Book Value Per Share Excluding AOCI is derived by dividing Total AIG shareholders’ equity, excluding AOCI, by Total common shares outstanding. The reconciliation to book value per common share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

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

After-tax operating income attributable to AIG is derived by excluding the following items from net income attributable to AIG:

• deferred income tax valuation allowance releases and charges; • changes in fair value of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense); • changes in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital gains and losses; • other income and expense — net, related to Corporate and Other run-off insurance lines; • loss on extinguishment of debt;	• income or loss from discontinued operations; • income and loss from divested businesses, including: • gain on the sale of International Lease Finance Corporation (ILFC); and • certain post-acquisition transaction expenses incurred by AerCap Holdings N.V. (AerCap) in connection with its acquisition of ILFC and the difference between expensing AerCap’s maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and related tax effects;

• net realized capital gains and losses; • non qualifying derivative hedging activities, excluding net realized capital gains and losses;	• legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments; and • legal reserves and settlements related to legacy crisis matters, which include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis and legal fees incurred as the plaintiff in connection with such legal matters.

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Item 7 / use of non-gaap measures

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

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

- **Pre tax operating income** includes both underwriting income and loss and net investment income, but excludes net realized capital gains and losses, other income and expense — net and legal settlements related to legacy crisis matters described above. Underwriting income and loss is derived by reducing net premiums earned by losses and loss adjustment expenses incurred, acquisition expenses and general operating expenses.

- **Ratios:** We, along with most property and casualty insurance companies, use the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of losses and loss adjustment expenses, and the amount of other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates underwriting income and a combined ratio of over 100 indicates an underwriting loss. The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting income and associated ratios.

- **Accident year loss and combined ratios, as adjusted:** both the accident year loss and combined ratios, as adjusted, exclude catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact in excess of $10 million each.

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

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

• changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense);	• changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; and
• net realized capital gains and losses;	• legal settlements related to legacy crisis matters described above.

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

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

• loss on extinguishment of debt; • net realized capital gains and losses; • changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains and losses; • income and loss from divested businesses, including Aircraft Leasing;	• net gain or loss on sale of divested businesses, including: • gain on the sale of ILFC; and • certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft and our share of AerCap's income taxes; and • certain legal reserves (settlements) related to legacy crisis matters described above.

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

Item 2 / EXECUTIVE OVERVIEW

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

In the fourth quarter of 2014, we completed our previously announced reorganization of our commercial and consumer insurance businesses and modified the presentation of our results to reflect our new operating structure. The new operating structure includes two reportable segments, Commercial Insurance and Consumer Insurance, and a Corporate and Other category. The Corporate and Other category consists of businesses and items not allocated to our reportable segments. Prior to the fourth quarter of 2014, we reported our results through two reportable segments – AIG Property Casualty and AIG Life and Retirement.

In order to align 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, the Commercial Insurance and Consumer Insurance reportable segments include the following operating segments:

• Commercial property casualty, mortgage guaranty and institutional markets businesses, which were previously reported as components of AIG Property Casualty, Other operations and AIG Life and Retirement, respectively, are now reported as components of the Commercial Insurance reportable segment.

• Consumer property casualty business and Japan life insurance business, which were previously reported as components of AIG Property Casualty, and our retail life and retirement and institutional group retirement and group benefits businesses, which were previously reported as components of AIG Life and Retirement, are now reported as components of the Consumer Insurance reportable segment.

• Insurance run-off lines of business, which were previously reported in AIG Property Casualty's Other category, are now reported as a component of the Corporate and Other category.

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

Presentation Changes

We reclassified our presentation for certain Policy fees, along with a related portion of Amortization of deferred policy acquisition costs, from their respective captions to Net realized capital gains (losses) and Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses), respectively. The reclassification of these policy fees, which are related primarily to guaranteed minimum withdrawal benefits (GMWB) embedded derivatives in our variable annuity products, to realized capital gains (losses), consolidates the fees from these embedded derivatives with the associated change in fair value of such derivatives. The reclassifications reduced pre-tax operating income and after-tax operating income, but had no effect on GAAP basis Total revenues, Income from continuing operations before income tax expense (benefit) or Net income.

Also, revisions were made to change the classification of certain miscellaneous income from General operating and other expenses to premiums, and of certain broker-dealer fees from General operating and other expenses to other income, to conform with the current period presentation. There was no effect on pre-tax or after-tax operating income, income from continuing operations or net income.

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The reclassifications and revisions affected previously reported captions as follows:

Years Ended December 31,	2013			2012		
	As Previously Reported	Increase (Decrease)	As Currently Reported	As Previously Reported	Increase (Decrease)	As Currently Reported
Premiums	$ 37,350	$ 149	$ 37,499	$ 38,047	$ 142	$ 38,189
Policy fees	2,535	(195)	2,340	2,349	(157)	2,192
Net realized capital gains (losses)	1,744	195	1,939	930	157	1,087
Other income	6,819	47	6,866	4,848	51	4,899
Total	48,448	196 -	48,644	46,174	193	46,367
General operating and other expenses	13,368	196	13,564	12,820	193	13,013
Net income attributable to AIG	9,085	-	9,085	3,438	-	3,438
Pre-tax operating income	9,561	(171)	9,390	10,082	(144)	9,938
After-tax operating income	6,762	(112)	6,650	6,635	(93)	6,542

Financial Performance

Commercial Insurance pre tax operating income increased in 2014 compared to 2013 primarily due to improved underwriting results in the Property Casualty and Mortgage Guaranty operating segments partially offset by reduced net investment income in the Property Casualty and Institutional Markets operating segments.

Consumer Insurance pre tax operating income decreased in 2014 compared to 2013 primarily due to lower net investment income, primarily from lower income from alternative investments, and additional reserves for IBNR death claims related to continued enhancement of claims procedures. These items more than offset favorable performance from our businesses in 2014 compared to 2013, which included growth in policy fees and assets under management primarily from strong sales of variable and index annuities in Retirement, effective crediting rate management, and higher underwriting income in Personal Insurance, primarily from improved loss experience and lower general operating expenses.

Our investment portfolio performance improved in 2014 compared to 2013 due to positive performance on bonds for which we elected the fair value option, driven by movements on interest rates.

Net realized capital gains declined in 2014 compared to 2013 due to lower capital gains from sales of investments related to capital loss carryforward utilization and higher fair value losses on embedded derivatives related to variable annuity guarantee features, net of hedges.

Our Performance – Selected Indicators

Years Ended December 31, *(in millions, except per share data and ratios)*	2014	2013	2012
Results of operations data:			
Total revenues	$ 64,406	$ 68,874	$ 71,214
Income from continuing operations	7,574	9,008	3,699
Net income attributable to AIG	7,529	9,085	3,438
Net income per common share attributable to AIG (diluted)	5.20	6.13	2.04
After-tax operating income attributable to AIG	6,630	6,650	6,542
After-tax operating income per common share attributable to AIG (diluted)	4.58	4.49	3.88
Key metrics:			
Commercial Insurance			
Property Casualty combined ratio	100.2	101.6	110.9
Property Casualty accident year combined ratio, as adjusted	94.2	95.1	99.3
Property Casualty net premiums written	$ 21,020	$ 20,880	$ 20,348
Mortgage Guaranty domestic first-lien new insurance written	42,038	49,356	37,273
Institutional Markets premiums and deposits	3,797	991	774
Consumer Insurance			
Personal Insurance combined ratio	99.9	101.5	102.1
Personal Insurance accident year combined ratio, as adjusted	99.5	102.1	99.3
Personal Insurance net premiums written	$ 12,412	$ 12,700	$ 13,302
Retirement premiums and deposits	24,023	23,729	16,048
Life premiums and deposits	4,806	4,862	4,864
Life Insurance Companies assets under management	332,847	317,977	290,387

(in millions, except per share data)	December 31, 2014	December 31, 2013
Balance sheet data:		
Total assets	$ 515,581	$ 541,329
Long-term debt	31,217	41,693
Total AIG shareholders' equity	106,898	100,470
Book value per common share	77.69	68.62
Book value per common share, excluding AOCI	69.98	64.28

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Total revenues *(in millions)*		**Income from continuing operations** *(in millions)*
Net income ATTRIBUTABLE TO AIG *(in millions)*		**Net INCOME PER COMMON SHARE ATTRIBUTABLE TO AIG (DILUTED)**

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After-tax operating income attributable to aig (excludes net realized capital gains and certain other items) *(in millions)*		**Pre-tax operating income by segment** *(in millions)*

TOTAL ASSETS *(in millions)*		**Long-term debt** *(in millions)*

Total AIG shareholders' equity *(in millions)*		**Book value per common share and book value per common share excluding aoci**

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

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Investment Highlights

Net investment income increased 1.7 percent to $16.1 billion in 2014 compared to 2013.

Net investment income improved in 2014 compared to 2013 due to positive performance on bonds for which we elected the fair value option, driven by interest rate movements. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities and other fixed income securities with favorable risk versus return characteristics to improve yields and increase net investment income.

Net unrealized gains in our available for sale portfolio increased to approximately $19.0 billion as of December 31, 2014 from approximately $11.7 billion as of December 31, 2013 due to a decline in interest rates and widening of spreads.

The overall credit rating of our fixed maturity securities portfolio remains largely unchanged from December 31, 2013.

Liquidity and Capital Resources Highlights

We reduced our debt in 2014 as a result of maturities, repayments and repurchases of $16.1 billion, of which $7.5 billion is related to DIB redemptions and repurchases.

We maintained financial flexibility at AIG Parent in 2014 through $2.6 billion in dividends in the form of cash and fixed maturity securities from our Non-Life Insurance Companies and $6.8 billion in dividends and loan repayments in the form of cash and fixed maturity securities from our Life Insurance Companies, which included approximately $829 million of legal settlement proceeds.

Our Board of Directors increased our share repurchase authorization of AIG Common Stock, par value $2.50 per share (AIG Common Stock), by an additional $2.5 billion on February 12, 2015. During 2014, we repurchased approximately 88 million shares of AIG Common Stock for an aggregate purchase price of approximately $4.9 billion. The total number of shares of AIG Common Stock repurchased in 2014, and the aggregate purchase price of these shares, reflect our payment of approximately $3.1 billion in the aggregate under five accelerated stock repurchase (ASR) agreements and our receipt of approximately 53 million shares of AIG Common Stock in the aggregate, including the initial receipt of 70 percent of the total notional share equivalent, or approximately 9.2 million shares of AIG Common Stock, under an ASR Agreement executed in December 2014.

We paid a cash dividend on AIG Common Stock of $0.125 per share on each of March 25, 2014, June 24, 2014, September 25, 2014 and December 18, 2014.

Our Board of Directors declared a cash dividend on AIG Common Stock on February 12, 2015 of

$0.125 per share, payable on March 26, 2015 to shareholders of record on March 12, 2015.

We received net cash proceeds of approximately $2.4 billion from the sale of ILFC after taking into account the settlement of intercompany loans. This cash amount is in addition to the 97.6 million newly issued AerCap common shares we received as consideration from the sale.

Additional discussion and other liquidity and capital resources developments are included in Note 17 to the Consolidated Financial Statements and Liquidity and Capital Resources herein.

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Industry Trends

Our business is affected by industry and economic factors such as interest rates, currency exchange rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continued to operate under difficult market conditions in 2014, characterized by factors such as historically low interest rates, instability in the global markets and slowing growth in emerging markets, China and Euro-Zone economies.

Interest rates remain low relative to historical levels, which has affected our industry by reducing investment returns. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

AIG is focused on the following priorities for 2015:

- Improve our focus on our customers to understand their challenges and to help solve their problems;
- Improve our cost structure to simplify our operations in ways that bring us closer to our customers;
- Improve our technology infrastructure to better serve customers and distribution partners, increase productivity, reduce expenses, and better position ourselves against our competitors; and
- Concentrate on activities that increase our intrinsic value and sustainable profitability.

The outlook for each of our businesses and management initiatives to improve growth and performance in 2015 and over the longer term is summarized below.

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Commercial insurance Strategic initiatives and Outlook

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

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

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

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

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

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

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

Market Conditions and Industry Trends

Commercial Insurance expects the current low interest rate environment relative to historical levels, currency volatility, and ongoing uncertainty in global economic conditions will continue to challenge the growth of net investment income and limit growth in some markets. Due to these conditions and overcapacity in the property casualty insurance industry, Commercial Insurance has sought to modify terms and conditions, grow profitable segments of the business, exit unprofitable businesses and develop advanced data analytics to improve profitability.

Property Casualty

Property Casualty has observed improving trends in certain key indicators that may offset the effect of current economic challenges. In recent years, Property Casualty has benefitted from favorable pricing trends, particularly in the U.S. However, such trends have tapered off in recent quarters. The property casualty insurance industry is experiencing modest growth as a result of this positive rate trend and an increase in overall exposures in certain markets. Property Casualty also expects that expansion in certain growth economies will occur at a faster pace than in developed countries, although at levels lower than those previously expected due to revised economic assumptions.

Since the second quarter of 2014, within the U.S. commercial property business, Property Casualty observed continued rate pressure in the U.S. Excess and Surplus lines market, particularly with respect to its natural catastrophe exposed business. Property Casualty continues to differentiate its capacity from its peers through leveraging management's significant experience with catastrophic events, providing loss prevention expertise and maintaining discipline in pricing to internal targets despite intense competition.

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

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Mortgage Guaranty

While higher residential mortgage interest rates have had an unfavorable impact on new mortgage loan volumes, particularly on refinancing activity, Mortgage Guaranty expects current residential mortgage interest rates will have a favorable impact on the persistency of business written in 2012 and 2013, since refinancing of mortgages would be unattractive to homeowners who originated mortgages at the historically low residential mortgage interest rates prevalent during that period. Mortgage Guaranty expects that this higher persistency will continue to have a positive effect on its results throughout 2015.

Mortgage Guaranty also expects that newly reported delinquencies will decline during 2015. Mortgage Guaranty believes the combination of higher persistency and lower new delinquencies, partially offset by a decline in new mortgage loan volumes, will result in favorable operating results for 2015.

Institutional Markets

Institutional Markets is expected to continue growing its assets under management from increased stable value wrap business, as well as from disciplined growth through the pursuit of select opportunities related to pension buyouts and GICs.

Strategic Initiatives

Customer

Commercial Insurance strives to be our customers' most valued insurer. Our investments in engineering, underwriting, claims services, science and data together are intended to help offer our customers not only innovative products, superb service and access to an extensive global network but also a superior and rewarding customer experience.

Strategic Growth

Property Casualty's efforts to better segment its business by industry, geography and type of coverage in order to enhance its decision making regarding risk acceptance and pricing are ongoing. For example, within workers' compensation, Property Casualty has observed different experience and trends based on this segmentation, which helps inform its risk appetite, pricing and loss mitigation decisions.

Mortgage Guaranty expects to continue as a leading provider of mortgage insurance and seeks to differentiate itself from its competitors by utilizing its proprietary risk-based pricing strategy. This pricing strategy provides Mortgage Guaranty's customers with mortgage insurance products that are priced commensurate with the underwriting risk, which we believe will result in an appropriately priced, high-quality book of business.

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

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Underwriting Excellence

We continue to further enhance our risk selection process and refine technical pricing and producer management, through enhanced tools and analytics. In addition, we remain focused on managing exposure to capital intensive long-tail lines. We believe that accident year loss ratios, as adjusted, will continue to improve due to these actions.

Claims Excellence

We continue to reduce loss costs by realizing greater efficiencies in servicing customer claims, introducing improved claims analytics and services, developing knowledge of the economic drivers of losses which collectively are expected to mitigate reserve development and legal costs, and improve customer insights and pricing.

Operational Effectiveness

We continue to make strategic investments in systems, processes and talent worldwide, which are expected to create additional value and greater efficiency in the years ahead. In addition, along with other areas of AIG, Commercial Insurance continues to leverage its various off-shore centers, taking advantage of opportunities to centralize and standardize processes and platforms.

Capital Efficiency

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

We also continue to streamline our legal entity structure to enhance transparency for regulators and optimize capital and tax efficiency, particularly with respect to the Non-Life Insurance Companies in the Property Casualty and Personal Insurance operating segments. Our legal entity restructuring initiatives have enhanced dividend capacity, reduced required capital, and provided tax benefits for these operations. Additionally, the restructurings allow us to simplify our reinsurance arrangements, which further facilitate increased capital optimization. In 2014, we completed the integration of our Japan operations into a holding company structure through the conversion of the American Home Assurance Company's Japan branch to a subsidiary of the Japan holding company, American Home Assurance Japan, effective on April 1, 2014. We expect our overall legal entity restructuring to be substantially completed in 2016, subject to regulatory approvals in the relevant jurisdictions.

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consumer insurance STRATEGIC INITIATIVES AND Outlook

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

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

Focused Growth: Invest in areas where Consumer Insurance can grow profitably and sustainably. Target growth in select markets according to market size, growth potential, market maturity and customer demographics.

Operational Effectiveness: Simplify processes, enhance operating environments, and leverage the best platforms and tools for multiple operating segments to increase competitiveness, improve service and product capabilities and facilitate delivery of our target customer experience.

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

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

Market Conditions and Industry Trends

Retirement

An increasing population of Americans expecting to live longer and placing less reliance on traditional retirement benefits are seeking financial security as they approach retirement, which continues to drive demand for individual variable and fixed index annuities with guaranteed income features. In addition, rising tax rates and a desire for higher investment returns have prompted less risk-averse investors to seek products without guaranteed lifetime income, providing Retirement Income Solutions the opportunity to further diversify its product portfolio by offering investment-focused variable annuities.

The sustained low interest rate environment has a significant impact on the annuity industry. Low long-term interest rates put pressure on long-term investment returns, negatively affect sales of interest rate sensitive products and reduce future profits on certain existing fixed rate products. As long as the sustained low interest rate environment continues, market conditions will be challenging for the fixed annuity market. In addition, more highly leveraged providers have entered the market offering higher crediting rates.

Despite the challenging environment where long-term interest rates have continued to remain low relative to historical levels throughout 2014, fixed annuity industry sales have continued to improve from the very low levels seen in 2013, as baby boomers approaching retirement continue to seek financial solutions that can provide guaranteed income, and customers are now more willing to purchase non-guaranteed return of premium products with market value adjustments in exchange for higher crediting rates. Although rapidly rising interest rates could create the potential for increased surrenders, customers are currently buying fixed annuities with longer surrender periods in pursuit of higher returns.

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Life

Populations are living longer and have increased needs for financial protection for beneficiaries, estate planning and wealth creation. The Life operating segment addresses these needs with a broad spectrum of products, ranging from the pure protection focus of term life to investment-oriented products such as indexed and variable universal life.

U.S. life insurance industry sales declined in 2014, driven by lower term and universal life sales partially offset by small gains in whole life markets. Market factors, primarily low interest rates and regulatory changes, have caused the universal life market to shift its focus from guaranteed universal life to indexed universal life products that offer attractive cash accumulation and increased living benefit options.

Personal Insurance

The overall rate level has improved in the Japanese and certain U.S. markets for auto, personal property, and accident and health products compared to prior years. In Japan, car and home sales increased in 2014 prior to the increase in the consumption tax, but prospectively, sales are expected to return to normal levels. In the U.S., overall rate level changes for auto and personal property products are expected to be positive but slow, with sales increasing as the economy continues to recover. Our Personal Insurance operating segment expects to increase its investment in growth economy nations that have a higher growth outlook for personal insurance products.

Strategic Initiatives

Customer

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

Information-driven Strategy

We intend to continue to strengthen our direct marketing capabilities through the use of analytics, stronger platforms and tools, an enhanced product portfolio and expanded relationships allowing us to bring more product solutions to our target markets.

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

Focused Growth

Retirement Income Solutions intends to continue capitalizing on the opportunity to meet consumer demand for guaranteed income by maintaining competitive variable annuity product offerings while managing risk, using innovative product design and well-developed economic hedging capabilities. De-risking features of its variable annuity product design include variable rider fees indexed to an equity market volatility index, required minimum allocations to fixed accounts, and the utilization of volatility control funds. Retirement Income Solutions has a dynamic risk management hedging program and continues to invest in market risk management. Strategies to diversify the Retirement Income Solutions product portfolio include growing sales of fixed index annuities with guarantee features, which provide additional income solutions for consumers approaching retirement, and introducing new investment-focused variable annuities, which offer alternative asset classes and tax benefits to investors seeking higher returns without guaranteed lifetime income.

Fixed Annuities sales will continue to be challenged by the low interest rate environment. Sales of fixed annuities could improve if interest rates rise and the yield curve steepens, as these market conditions make fixed annuity products more attractive compared to alternatives such as bank deposits. The growing market for immediate and deferred income products, driven by customers seeking guaranteed income products, provides an opportunity for Fixed Annuities to increase the diversification of its product portfolio.

Life will continue to invest to position for growth and serve its customers more effectively, and maintain pricing discipline in its overall strategy. Internationally, Life intends to expand its business in Japan, the United Kingdom and certain other countries through a focused strategy in selected markets and products by combining global expertise with local market intelligence to meet the needs of consumers in these target markets.

We acquired Ageas Protect Limited (Ageas Protect) on December 31, 2014 from international insurer Ageas Group for approximately $308 million. Our agreement to acquire Ageas Protect was announced in August 2014. Ageas Protect is a leading provider of life protection products in the United Kingdom, recognized in its market for product innovation, the effective use of technology and high quality service. We expect the acquisition of Ageas Protect to enhance our global Consumer Insurance business and strengthen our presence in the United Kingdom, where we already offer personal accident, health and travel insurance coverage, as well as customized insurance solutions for high net worth individuals through AIG Private Client Group.

As part of our strategy to expand consumer operations in growth economies, on May 29, 2013, we entered into a joint venture agreement with PICC Life Insurance Company Limited (PICC Life), a subsidiary of the PICC Group, to form an agency distribution company in China to distribute life and retirement products. The joint venture company distributes PICC Life products and PICC Property & Casualty Company Limited (PICC P&C) insurance products, as well as other products aimed at meeting the needs of this developing market, and will distribute jointly developed life, retirement and personal insurance products. We own 24.9 percent of the joint venture company and PICC Life holds the remaining 75.1 percent. The joint venture commenced operations in March 2014.

Consumer Insurance continues to explore other potential life insurance and accident and health opportunities internationally.

Personal Insurance aims to provide customers with the products they need, distributed through the channels they prefer, and delivered with excellent customer service. Personal Insurance is focused on profitable growth in its selected market segments, with targeted investments in both scale businesses and emerging markets. Personal Insurance will continue to leverage its strong risk management and market expertise to foster growth by providing innovative and competitive solutions to its customers and distributors.

Operational Effectiveness

We are continuing to invest in initiatives to enable simpler and more agile low-cost operating models to provide superior service and position our operating platforms to accommodate significant future growth. In Japan, we continue to invest in technology and systems to improve operating efficiency and make it easier for our partners and our customers to do business with us, with the intent to ultimately increase our market share and facilitate our expansion in segments of the market that are expected to grow over the next decade, given demographic trends. In the U.S. Life business, we are focused on leveraging our most efficient systems environments and increased automation of our underwriting process. We believe that these simpler operating models will allow for productivity improvements and enhance our ability to leverage common functionality across product lines and borders, further supporting profitable growth.

Investment Strategy

Our investment objective is to maintain a diversified, high quality portfolio of fixed maturity securities having weighted average durations that are matched to the duration and cash flow profile of our liabilities, to the extent practicable. Our investment strategy is to maximize net investment income and portfolio value, subject to liquidity requirements, capital constraints, diversification requirements, asset-liability matching and available investment opportunities. See Investments for additional discussion of investment strategies.

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Profitability and Capital Management

We intend to continue to enhance profitability and capital efficiency within our insurance entities through disciplined pricing, in-force profitability management and effective management of risk. Volatility risk controls including required minimum allocations to fixed and volatility control accounts, rider fees indexed to an equity market volatility index and our comprehensive dynamic hedging program are critical tools for products where we have significant equity market risk and exposure to changes in interest rates. Additionally, our scale and the breadth of our product offerings provide diversification of risk. Within our Non-Life Insurance Companies, we continue to streamline our legal entity structure to enhance transparency with regulators and optimize capital efficiency.

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

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Item 7 / Results of Operations

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three-year period ended December 31, 2014. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment discussion. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of this MD&A.

The following table presents our consolidated results of operations:

Years Ended December 31,				Percentage Ch	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013
Revenues:					
Premiums	**$ 37,254**	$ 37,499	$ 38,189	(1)%	
Policy fees	**2,615**	2,340	2,192	12	
Net investment income	**16,079**	15,810	20,343	2	
Net realized capital gains	**739**	1,939	1,087	(62)	
Aircraft leasing revenue	**1,602**	4,420	4,504	(64)	
Other income	**6,117**	6,866	4,899	(11)	
Total revenues	**64,406**	68,874	71,214	(6)	
Benefits, losses and expenses:					
Policyholder benefits and losses incurred	**28,281**	29,503	32,036	(4)	
Interest credited to policyholder account balances	**3,768**	3,892	4,340	(3)	
Amortization of deferred policy acquisition costs	**5,330**	5,157	5,709	3	
General operating and other expenses	**13,138**	13,564	13,013	(3)	
Interest expense	**1,718**	2,142	2,319	(20)	
Loss on extinguishment of debt	**2,282**	651	32	251	
Aircraft leasing expenses	**1,585**	4,549	4,138	(65)	
Net (gain) loss on sale of divested businesses	**(2,197)**	48	6,736	NM	
Total benefits, losses and expenses	**53,905**	59,506	68,323	(9)	
Income from continuing operations before income tax expense (benefit)	**10,501**	9,368	2,891	12	
Income tax expense (benefit)	**2,927**	360	(808)	NM	
Income from continuing operations	**7,574**	9,008	3,699	(16)	
Income (loss) from discontinued operations, net of income tax expense (benefit)	**(50)**	84	1	NM	
Net income	**7,524**	9,092	3,700	(17)	
Less: Net income (loss) attributable to noncontrolling interests	**(5)**	7	262	NM	
Net income attributable to AIG	**$ 7,529**	$ 9,085	$ 3,438	(17)%	

For the year ended December 31, 2014, the effective tax rate on income from continuing operations was 27.9 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $236 million associated with tax exempt interest income, $209 million related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, $182 million of income excludable from gross income related to the global resolution of certain residential mortgage-related disputes and $68 million associated with the effect of foreign operations.

For the year ended December 31, 2013, the effective tax rate on income from continuing operations was 3.8 percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to tax benefits of $2.8 billion related to a decrease in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance, $396 million related to a decrease in certain other valuation allowances associated with foreign jurisdictions and $298 million associated with tax exempt interest income. These items were partially offset by charges of $632 million related to uncertain tax positions.

For the year ended December 31, 2012, the effective tax rate on income from continuing operations was (27.9) percent. The effective tax rate on income from continuing operations differs from the statutory tax rate of 35 percent primarily due to decreases in the U.S. Life Insurance Companies' capital loss carryforward valuation allowance of $1.9 billion related to the actual and projected gains from the U.S. Life Insurance Companies' available-for-sale securities, and tax effects associated with tax exempt interest income of $302 million. These items were partially offset by changes in uncertain tax positions of $446 million.

Item 7 / Results of Operations

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

Years Ended December 31, *(in millions)*		**2014**		2013	
Net income attributable to AIG	**$**	**7,529**	$	9,085	$
Uncertain tax positions and other tax adjustments		**59**		791	
Deferred income tax valuation allowance releases		**(181)**		(3,237)	
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense		**(169)**		105	
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)		**141**		1,148	
Other (income) expense - net		**-**		47	
Loss on extinguishment of debt		**1,483**		423	
Net realized capital gains		**(470)**		(1,285)	
(Income) loss from discontinued operations		**50**		(84)	
(Income) loss from divested businesses, including gain on the sale of ILFC		**(1,462)**		117	
Legal reserves (settlements) related to legacy crisis matters		**(350)**		(460)	
Non-qualifying derivative hedging (gains) losses, excluding net realized capital gains		**-**		-	
After-tax operating income attributable to AIG	**$**	**6,630**	$	6,650	$
Weighted average diluted shares outstanding		**1,447,553,652**		1,481,206,797	1
Income per common share attributable to AIG (diluted)	**$**	**5.20**	$	6.13	$
After-tax operating income per common share attributable to AIG (diluted)	**$**	**4.58**	$	4.49	$

After-tax operating income attributable to AIG for 2014 was essentially flat compared to 2013, primarily due to higher income tax expense, partially offset by an increase in income from insurance operations.

After-tax operating income attributable to AIG increased in 2013 compared to 2012, primarily due to increases in income from insurance operations, lower income tax expense and noncontrolling interests, partially offset by fair value gains on AIG's previously held interests in AIA ordinary shares, Maiden Lane II LLC (ML II), and ML III.

For the year ended December 31, 2014, the effective tax rate on pre-tax operating income was 30.9 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

For the year ended December 31, 2013, the effective tax rate on pre-tax operating income was 28.8 percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

For the year ended December 31, 2012, the effective tax rate on pre-tax operating income was 31.6 percent. The difference from the statutory rate was primarily due to tax exempt interest income and other permanent tax items.

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Segment Results

We report the results of our operations through two reportable segments: Commercial Insurance and Consumer Insurance. The Corporate and Other category consists of businesses and items not allocated to our reportable segments.

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

Years Ended December 31, *(in millions)*	2014	2013	2012
Commercial Insurance*	$ 5,510	$ 4,980	$ 2,215
Consumer Insurance*	4,474	4,564	3,736
Corporate and Other	(388)	(319)	4,005
Consolidations, eliminations and other adjustments	(22)	165	(18)
Pre-tax operating income	$ 9,574	$ 9,390	$ 9,938
Changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	260	(161)	37
Changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital gains	(217)	(1,608)	(1,213)
Other income (expense) - net	-	(72)	-
Loss on extinguishment of debt	(2,282)	(651)	(32)
Net realized capital gains	739	1,939	1,086
Income (loss) from divested businesses			