UAL CORP /DE/
Form SC 13G
November 13, 2001

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 13G

Under the Securities Exchange Act of 1934

(Amendment No. 2)*

UAL Corp.

(Name of Issuer)

Common

(Title of Class of Securities)

902549500

(CUSIP Number)

Check the following box if a fee is being paid with this statement / /. (A fee is not required only if the filing person: (1) has a previous statement on file reporting beneficial ownership of more than five percent of the class of securities described in Item 1; and (2) has filed no amendment subsequent thereto reporting beneficial ownership of five percent or less of such class.) (See Rule 13d-7).

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 902549500

(1) Name of Reporting Person
S.S. or I.R.S. Identification No. of above person

PRIMECAP Management Company 95-3868081

(2) Check the Appropriate Box if a Member of a Group* (a) / / (b) / /

(3) SEC Use Only

(4) Citizenship or Place of Organization

225 South Lake Avenue #400, Pasadena, CA 91101

Number of Shares Beneficially Owned by Each Reporting Person With	
	(5) Sole Voting Power -0-
	(6) Shared Voting Power -0-
	(7) Sole Dispositive Power -0-
	(8) Shared Dispositive Power -0-

(9) Aggregate Amount Beneficially Owned by Each Reporting Person

-0-

(10) Check if the Aggregate Amount in Row (9) Excludes Certain Shares* / /

(11) Percent of Class Represented by Amount in Row (9)

-0-

(12) Type of Reporting Person*

IA

*SEE INSTRUCTION BEFORE FILLING OUT!

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ITEM 1.

(a) Name of Issuer

(b) Address of Issuer's Principal Executive Offices

ITEM 2.

(a) Name of Person Filing

(b) Address of Principal Business Office or, if none, Residence

(c) Citizenship

(d) Title of Class of Securities

(e) CUSIP Number

ITEM 3. IF THIS STATEMENT IS FILED PURSUANT TO SECTIONS 240.13d-1(b) OR 240.13d-2(b) OR (c), CHECK WHETHER THE PERSON FILING IS A:

(a) / / Broker or dealer registered under section 15 of the Act (15 U.S.C. 78o).

(b) / / Bank as defined in section 3(a)(6) of the Act (15 U.S.C. 78c).

(c) / / Insurance company as defined in section 3(a)(19) of the Act (15 U.S.C. 78c).

(d) / / Investment company registered under section 8 of the Investment Company Act of 1940 (15 U.S.C. 80a-8).

(e) / / An investment adviser in accordance with section 240.13d-1(b)(1)(ii)(E).

(f) / / An employee benefit plan or endowment fund in accordance with section 240.13d-1(b)(1)(ii)(F).

(g) / / A parent holding company or control person in accordance with section 240.13d-1(b)(1)(ii)(G).

(h) / / A savings association as defined in section 3(b) of the Federal Deposit Insurance Act (12 U.S.C. 1813).

(i) / / A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940 (15 U.S.C. 80a-3).

(j) / / Group, in accordance with section 240.13d-1(b)(1)(ii)(J).

ITEM 4. OWNERSHIP

Provide the following information regarding the aggregate number and percentage of the class of securities of the issuer identified in Item 1.

(a) Amount beneficially owned:

(b) Percent of class:

(c) Number of shares as to which the person has:

(i) sole power to vote or to direct the vote

(ii) shared power to vote or to direct the vote

(iii) sole power to dispose or to direct the disposition of

(iv) shared power to dispose or to direct the disposition of

Instruction: For computations regarding securities which represent a right to acquire an underlying security see Rule 13d-3(d)(1).

ITEM 5. OWNERSHIP OF FIVE PERCENT OR LESS OF A CLASS

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following. /x/

Instruction: Dissolution of a group requires a response to this item.

ITEM 6. OWNERSHIP OF MORE THAN FIVE PERCENT ON BEHALF OF ANOTHER PERSON

If any other person is known to have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, such securities, a statement to that effect should be included in response to this item and, if such interest relates to more than five percent of the class, such person should be identified. A listing of the shareholders of an investment company registered under the Investment Company Act of 1940 or the beneficiaries of employee benefit plan, pension fund or endowment fund is not required.

ITEM 7. IDENTIFICATION AND CLASSIFICATION OF THE SUBSIDIARY WHICH ACQUIRED THE SECURITY BEING REPORTED ON BY THE PARENT HOLDING COMPANY

If a parent holding company has filed this schedule, pursuant to Rule 13d-1(b)(ii)(G), so indicate under Item 3(g) and attach an exhibit stating the identity and the Item 3 classification of the relevant subsidiary. If a parent holding company has filed this schedule pursuant to Rule 13d-1(c), attach an exhibit stating the identification of the relevant subsidiary.

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ITEM 8. IDENTIFICATION AND CLASSIFICATION OF MEMBERS OF THE GROUP

If a group has filed this schedule pursuant to Rule 13d-1(b)(ii)(H), so indicate under Item 3(h) and attach an exhibit stating the identity and Item 3 classification of each member of the group. If a group has filed this schedule pursuant to Rule 13d-1(c), attach an exhibit stating the identity of each member of the group.

ITEM 9. NOTICE OF DISSOLUTION OF GROUP

Notice of dissolution of a group may be furnished as an exhibit stating the date of the dissolution and that all further filings with respect to transactions in the security reported on will be filed, if required, by members of the group, in their individual capacity. See Item 5.

ITEM 10. CERTIFICATION

The following certification shall be included if the statement is filed pursuant to Rule 13d-1(b):

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired in the ordinary course of business and were not acquired for the purpose of and do not have the effect of changing or influencing the control of the issuer of such securities and were not acquired in connection with or as a participant in any transaction having such purposes or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

October 31, 2001

Date

/s/ Theo A. Kolokotrones

Signature

Theo A. Kolokotrones, President

Name/Title

QuickLinks

SIGNATURE

n=bottom width=9% style="border:none;height:12.0pt;padding:0in 3.35pt 0in .35pt;">

23,729

$

16,048

Deposits	
	(23,903)
	(23,690)
	(16,203)
Other	
	167
	149
	275
Premiums	

$

287

$

188

$

120

Premiums increased in 2014 compared to 2013, and in 2013 compared to 2012, primarily due to higher immediate annuity premiums in the Fixed Annuities product line.

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Premiums and Deposits and Net Flows

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

Years Ended December 31,				Percentage Change	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Fixed Annuities	**$ 3,578**	$ 2,914	$ 1,469	23%	98%
Retirement Income Solutions	**10,325**	8,608	4,828	20	78
Retail Mutual Funds	**3,377**	4,956	2,723	(32)	82
Group Retirement	**6,743**	7,251	7,028	(7)	3
Total Retirement premiums and deposits*	**$ 24,023**	$ 23,729	$ 16,048	1%	48%

Years Ended December 31,			
(in millions)	**2014**	2013	2012
Net flows			
Fixed Annuities	**$ (2,313)**	$ (2,820)	$ (4,252)
Retirement Income Solutions	**6,566**	5,092	1,598
Retail Mutual Funds	**(1)**	2,780	1,018
Group Retirement	**(3,797)**	(492)	302
Total Retirement net flows*	**$ 455**	$ 4,560	$ (1,334)

* Excludes activity related to closed blocks of fixed and variable annuities, which had reserves of approximately $5.4 billion and $6.0 billion at December 31, 2014 and 2013, respectively.

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

Premiums and deposits for Retirement increased in 2014 compared to 2013, primarily due to continued strong demand for variable and fixed index annuities in the Retirement Income Solutions product lines and improved sales in Fixed Annuities, partially offset by lower deposits in Retail Mutual Funds and Group Retirement. Premiums and deposits improved significantly in 2013 compared to 2012, primarily due to strong sales across all product lines. See below for additional discussion of each product line.

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

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Total net flows for Retirement decreased in 2014 compared to 2013, as higher surrenders and withdrawals in 2014, primarily in the Group Retirement and Retail Mutual Fund product lines, resulted in a significant decrease in net flows compared to 2013. Net flows for Retirement increased in 2013 compared to 2012, primarily due to the increase in premiums and deposits, partially offset by higher surrenders in Group Retirement and Retail Mutual Funds. See below for additional discussion of each product line.

Premiums and Deposits and Net Flows by Product Line

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

Fixed Annuities deposits increased in 2014 compared to 2013 due to modest increases in interest rates and steepening of the yield curve in the first half of 2014, compared to lower rates in the prior year, particularly in the first half of 2013. The increase in Fixed Annuities deposits in 2013 compared to 2012 was due to the increase in market interest rates in the second half of 2013. Fixed Annuities net flows continued to be negative, but improved slightly in 2014 compared to 2013, and improved significantly in 2013 compared to 2012, primarily due to the increased deposits.

Retirement Income Solutions premiums and deposits and net flows increased significantly in 2014 compared to 2013, and in 2013 compared to 2012, reflecting a continued high volume of variable and index annuity sales, which have benefitted from consumer demand for retirement products with guaranteed benefit features, product enhancements, expanded distribution and a more favorable competitive environment. The improvement in the surrender rate (see Surrender Rates below) was primarily due to the significant growth in account value driven by the high volume of sales, which has increased the proportion of business that is within the surrender charge period.

Retail Mutual Fund deposits and net flows decreased in 2014 compared to 2013 and increased in 2013 compared to 2012. These variances were primarily driven by activity in the Focused Dividend Strategy Fund, which had record sales in 2013. In 2014, the relative performance of the fund declined, putting pressure on sales and withdrawal activity.

Group Retirement net flows decreased in 2014 compared to 2013, primarily due to higher group surrender activity, as well as lower premiums and deposits. The increase in surrenders and surrender rate for 2014 compared to 2013 included large group surrenders of approximately $2.7 billion, but reserves of this product line grew in 2014 compared to 2013, and the 2014 surrender activity is not expected to have a significant impact on pre-tax operating income in 2015. The large group market has become increasingly competitive and has been impacted by the consolidation of healthcare providers and other employers in our target markets. This trend of heightened competition is expected to continue in 2015 as plan sponsors perform reviews of existing retirement plan relationships. The decrease in Group Retirement net flows in 2013 compared to 2012 was primarily a result of higher surrenders of individual participants as well as large group surrenders.

Surrender Rates

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

At December 31,	**2014**			2013		
(in millions)	Group Retirement Products[a]	Fixed Annuities	Retirement Income Solutions	Group Retirement Products[a]	Fixed Annuities	Retirement Income Solutions
No surrender charge[b]	**$ 61,751**	**$ 34,396**	**$ 1,871**	$ 60,962	$ 30,906	$ 2,065
0% - 2%	**1,648**	**2,736**	**17,070**	1,508	2,261	16,839
Greater than 2% - 4%	**1,657**	**2,842**	**4,254**	1,967	4,349	2,734
Greater than 4%	**5,793**	**12,754**	**26,165**	5,719	16,895	19,039
Non-surrenderable	**770**	**3,464**	**151**	315	2,758	67
Total reserves	**$ 71,619**	**$ 56,192**	**$ 49,511**	$ 70,471	$ 57,169	$ 40,744

(a) Excludes mutual fund assets under management of $14.6 billion and $15.1 billion at December 31, 2014 and 2013, respectively.

(b) Group Retirement Products in this category include reserves of approximately $6.2 billion at both December 31, 2014 and 2013 that are subject to 20 percent annual withdrawal limitations.

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

Years Ended December 31,	2014	2013	2012
Surrenders as a percentage of average account value			
Fixed Annuities	**7.0** %	6.6 %	6.3%
Retirement Income Solutions	**7.1**	8.7	10.3
Group Retirement	**11.6**	9.0	8.7

Life Results

The following table presents Life results:

Years Ended December 31,				Percentage Change	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Revenues:					
Premiums	**$ 2,679**	$ 2,737	$ 2,804	(2)%	(2)%
Policy fees	**1,443**	1,391	1,370	4	2
Net investment income	**2,199**	2,269	2,283	(3)	(1)
Benefits and expenses:					
Policyholder benefits and losses incurred	**3,771**	3,568	3,601	6	(1)
Interest credited to policyholder account balances	**507**	542	511	(6)	6
Amortization of deferred policy acquisition costs	**321**	360	400	(11)	(10)
Non deferrable insurance commissions	**257**	272	314	(6)	(13)
General operating expenses	**885**	849	895	4	(5)
Pre-tax operating income	**$ 580**	$ 806	$ 736	(28)	10

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

2014 and 2013 Comparison

Pre-tax operating income decreased in 2014 compared to 2013, primarily due to increases in policyholder benefit reserves, lower net investment income and higher general operating expenses. Updates of actuarial assumptions also decreased pre-tax operating income by $119 million in 2014 compared to $80 million in 2013. The assumption updates in 2014 included $87 million of loss recognition expense to increase reserves for certain long-term care business. These decreases were partially offset by a $28 million increase in pre-tax operating income in 2014 compared to 2013, due to a 2013 increase in equity-indexed universal life reserves, which was reflected in Interest credited to policyholder account balances.

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Overall, mortality experience for 2014 was similar to 2013 and within pricing assumptions. Policyholder benefit expense in 2014 included an increase of approximately $104 million to the estimated reserves for IBNR death claims, which reflected continuing efforts to identify deceased insureds and their beneficiaries who have not presented a valid claim, pursuant to the 2012 resolution of a multi-state audit and market conduct examination. The 2014 increase in the IBNR reserve was related primarily to a legacy block of in-force and lapsed small face amount policies, for which the personal data elements to effect a match against the Social Security Death Master File are unavailable or incomplete, such as full legal name, date of birth or Social Security number. In 2014, in the process of reviewing these policies as required under the terms of the regulatory agreement, we have refined our estimate of the ultimate cost of these claims. The $104 million reserve increase in 2014 was in addition to amounts previously provided for IBNR claims in 2011 and 2012, which totaled $259 million. While we believe that we are adequately reserved for such claims, there can be no assurance that the ultimate cost will not vary from the current estimate.

Net investment income decreased in 2014 compared to 2013, primarily due to lower income from alternative investments and lower yields on the base portfolio due to investment of portfolio cash flows at rates below the weighted average yield of the existing portfolio. See Investments – Life Insurance Companies for additional discussion of the investment strategy, asset-liability management process and invested assets of our Life Insurance Companies, which include the invested assets of the Life business.

General operating expenses increased in 2014 compared to 2013 primarily due to strategic investments in technology and service platforms in the U.S. and Japan.

2013 and 2012 Comparison

Pre-tax operating income increased in 2013 compared to 2012, primarily due to additional expenses recorded in 2012, which included $67 million of loss recognition reserves for long-term care products, $57 million of additional IBNR claim reserves and an $11 million regulatory assessment related to the resolution of multi-state regulatory examinations of death claims practices, and an accrual of $20 million from consolidation of certain life operations and administrative systems. The increase in pre-tax operating income in 2013 due to the absence of these prior year expenses was partially offset by a $28 million increase in equity indexed universal life reserves in 2013, as well as a higher net negative adjustment of $80 million in 2013, compared to $43 million in 2012, to update certain gross profit assumptions used to amortize DAC and related items for universal life products.

Net investment income in 2013 decreased slightly compared to 2012, due to the absence of ML II fair value gains recognized in 2012 and reinvestment of investment proceeds at lower rates, partially offset by higher income from alternative investments.

General operating expenses decreased in 2013 compared to 2012 primarily due to operational efficiencies driven by technology improvements and process consolidation efforts.

Spread Management

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

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

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

December 31, 2014		Current Crediting Rates		
Contractual Minimum Guaranteed Interest Rate *(in millions)*	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Universal life insurance				
1%	$ 83	$ -	$ 6	$ 89
> 1% - 2%	34	112	211	357
> 2% - 3%	516	416	1,372	2,304
> 3% - 4%	2,119	516	1,157	3,792
> 4% - 5%	4,039	189	-	4,228
> 5% - 5.5%	331	-	-	331
Total	$ 7,122	$ 1,233	$ 2,746	$ 11,101
Percentage of total	64%	11%	25%	100%

Life Premiums and Deposits

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

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

Years Ended December 31, *(in millions)*	**2014**	2013	2012
Premiums and deposits	**$ 4,806**	$ 4,862	$ 4,864
Deposits	**(1,532)**	(1,541)	(1,531)
Other	**(595)**	(584)	(529)
Premiums	**$ 2,679**	$ 2,737	$ 2,804

The decrease in Life premiums in 2014 compared to 2013 was primarily due to the non-renewal of certain group benefit accounts and the strengthening of the U.S. dollar against the Japanese yen, partially offset by solid growth in Japan premiums excluding the effect of foreign exchange. The decrease in premiums for 2013 compared to 2012 was the result of the run-off of an older block of traditional life in the U.S. and the strengthening of the U.S. dollar against the Japanese yen, which exceeded the increase from new sales of traditional products.

Premiums and deposits decreased in 2014 compared to 2013, due to the decrease in premiums, and were consistent in 2013 with 2012.

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Personal Insurance Results

The following table presents Personal Insurance results:

Years Ended December 31,				Percentage Change	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Underwriting results:					
Net premiums written	**$12,412**	$12,700	$13,302	(2)%	(5)%
Increase in unearned premiums	**(442)**	(323)	(199)	(37)	(62)
Net premiums earned	**11,970**	12,377	13,103	(3)	(6)
Losses and loss adjustment expenses incurred	**6,488**	7,025	7,764	(8)	(10)
Acquisition expenses:					
Amortization of deferred policy acquisition costs	**2,092**	2,203	2,047	(5)	8
Other acquisition expenses	**1,165**	1,044	1,273	12	(18)
Total acquisition expenses	**3,257**	3,247	3,320	-	(2)
General operating expenses	**2,220**	2,292	2,297	(3)	-
Underwriting income (loss)	**5**	(187)	(278)	NM	33
Net investment income	**394**	455	477	(13)	(5)
Pre-tax operating income	**$ 399**	$ 268	$ 199	49%	35%

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

2014 and 2013 Comparison

Pre tax operating income increased in 2014 compared to 2013, primarily due to a decrease in current accident year losses and lower general operating expenses, partially offset by higher catastrophe losses and lower net favorable prior year loss reserve development, higher acquisition expenses and a decrease in net investment income. Catastrophe losses were $126 million in 2014, compared to $77 million in 2013. The accident year losses include severe losses of approximately $54 million in 2014 compared to $17 million in 2013. Net favorable loss reserve development was $77 million in 2014 compared to $155 million in 2013, and included approximately $7 million of favorable loss reserve development from Storm Sandy compared to $41 million in 2013. Foreign exchange did not have a significant impact on the pre-tax operating income compared to 2013.

Acquisition expenses increased in 2014 compared to 2013, primarily due to the change in business mix and higher costs in growth-targeted lines of business, partially offset by the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. Direct marketing expenses, excluding commissions, for 2014 were $392 million, compared to

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$440 million in 2013. These expenses, while not deferrable, are expected to generate business that has an average expected overall persistency of approximately five years and, in Japan, where the majority of the expenses are incurred, approximately nine years. Excluding the impact of foreign exchange, direct marketing expenses decreased by approximately $24 million in 2014 compared to 2013. Direct marketing accounted for approximately 17 percent of net premiums written in both 2014 and 2013.

General operating expenses decreased in 2014 compared to 2013. Excluding the effect of foreign exchange, general operating expenses remained flat, as efficiencies from organizational realignment initiatives were offset by increased technology-related expenses.

Net investment income decreased in 2014 compared to 2013, primarily due to a decrease in interest rates during 2014, as yields on new purchases were lower than the weighted average yield of the overall portfolio, lower income on alternative investments, and lower income associated with investments accounted for under the fair value option method as an increase related to the PICC P&C rights offerings was more than offset by a decrease from fixed maturity investments accounted for under the fair value option. These were partially offset by the effect of continued portfolio diversification. Additionally, the decrease in allocated net investment income was also due to a reduction in net loss reserves.

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

2013 and 2012 Comparison

Pre tax operating income increased in 2013 compared to 2012, primarily due to a lower underwriting loss, partially offset by a decrease in net investment income. Underwriting results improved primarily due to lower catastrophe losses and higher net favorable loss reserve development, coupled with lower acquisition expenses. Catastrophe losses in 2013 were $77 million, compared to $382 million in 2012. Net favorable loss reserve development was $155 million in 2013, compared to $20 million in 2012. Additionally, 2013 included approximately $41 million of favorable loss reserve development from Storm Sandy. Foreign exchange did not have a significant impact on pre-tax operating income compared to 2012.

Acquisition expenses decreased in 2013 compared to 2012, primarily due to the change in business mix, partially offset by increased costs in growth targeted lines of business. Direct marketing expenses, excluding commissions, for 2013 were $440 million, compared to $452 million in 2012. Excluding the effect of foreign exchange, direct marketing expenses increased by approximately $46 million in 2013 compared to 2012.

General operating expenses decreased slightly in 2013 compared to 2012, primarily due to reduced costs of strategic initiatives, technology-related and infrastructure expenses. These were largely offset by the increase in employee incentive plan expenses, which reflected the alignment of employee performance with the overall performance of the organization, including our stock performance, and accelerated vesting provisions for retirement-eligible individuals in the 2013 share-based plan, as well as the strategic expansion into growth economy nations.

Net investment income decreased in 2013 compared to 2012, primarily due to a change in allocated investment income as a result of lower net loss reserves from a change in the business mix.

Personal Insurance Net Premiums Written

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

Years Ended December 31,				Percentage Change	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Accident & Health	**$ 5,441**	$ 5,714	$ 6,089	(5)%	(6)%
Personal Lines	**6,971**	6,986	7,213	-	(3)
Total Personal Insurance net premiums written	**$12,412**	$12,700	$13,302	(2)%	(5)%

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Personal Insurance *(in millions)*

2014 and 2013 Comparison

Personal Insurance net premiums written decreased in 2014, compared to 2013, primarily due to the impact of foreign exchange as the U.S. dollar strengthened against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased in 2014 compared to 2013 as the business continued to grow through multiple product and distribution channels, including direct marketing.

A&H net premiums written decreased in 2014 compared to 2013. The decrease was primarily due to our focus on maintaining underwriting discipline in certain classes of business in the U.S., partially offset by growth in Japan and Latin America.

Personal Lines net premiums written, excluding the effect of foreign exchange, increased in 2014 compared to 2013. The increase was primarily due to increased rates and improved retention in AIG Private Client Group and continued growth of automobile business outside of Japan, partially offset by declines in the U.S. warranty service programs.

2013 and 2012 Comparison

Personal Insurance net premiums written decreased in 2013, compared to 2012, primarily due to the impact of foreign exchange as the U.S. dollar strengthened against the Japanese yen. Excluding the impact of foreign exchange, net premiums written increased in 2013 compared to 2012 as the business continued to build momentum through multiple distribution channels.

A&H net premiums written, excluding the effect of foreign exchange, increased slightly in 2013 compared to 2012, primarily due to our focused strategy to grow sales through the direct marketing distribution channel, individual A&H in Asia Pacific, and the travel business which continued to increase in most geographies across the globe.

Personal Lines net premiums written, excluding the effects of foreign exchange, increased in 2013 compared to 2012. The increases were driven by growth in AIG Private Client Group and the warranty service programs, automobile products and the continued execution of our strategic initiative to grow higher value lines of business. In addition, the impact of excess of loss ceded premiums and of the catastrophe bond issuances reduced net premiums written by $58 million compared to 2012.

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Personal Insurance Net Premiums Written by Region

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

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Char Original Currer	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012	2014 vs. 2013	2013
Americas	**$ 3,824**	$ 3,794	$ 3,779	1%	-%	4%	
Asia Pacific	**6,516**	6,893	7,714	(5)	(11)	1	
EMEA	**2,072**	2,013	1,809	3	11	2	
Total net premiums written	**$12,412**	$12,700	$13,302	(2)%	(5)%	2%	

Personal insurance NET PREMIUMS WRITTEN by Region

(in millions)

2014 and 2013 Comparison

Americas net premiums written increased in 2014 compared to 2013, primarily due to an increase in all product lines in our Latin America operations and growth in U.S. personal property and automobile businesses. These were partially offset by a decrease in U.S. A&H due to our continued focus on maintaining underwriting discipline.

Asia Pacific net premiums written decreased in 2014 compared to 2013, primarily due to the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased, primarily due to production increases in Japan A&H and in property and automobile business outside of Japan.

EMEA net premiums written increased in 2014 compared to 2013, due to growth in the automobile business and warranty service programs, partially offset by a decrease in the A&H business.

2013 and 2012 Comparison

Americas net premiums written increased in 2013 compared to 2012, primarily due to continued growth in property, the AIG Private Client Group and rate actions related to the warranty retail program. This was partially offset by the effect of the timing of catastrophe bond reinsurance transactions.

Asia Pacific net premiums written decreased in 2013 compared to 2012, primarily due to the strengthening of the U.S. dollar against the Japanese yen. Excluding the effect of foreign exchange, net premiums written increased primarily due to our focused strategy to grow sales through the direct marketing distribution channel. The expansion of business in Asia Pacific countries outside of Japan was driven by an increase in individual personal accident insurance and personal lines products.

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EMEA net premiums written increased in 2013 compared to 2012, due to growth in all lines of Personal Insurance.

Personal Insurance Underwriting Ratios

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

				Increase (Decrease)	
Years Ended December 31,	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Loss ratio	**54.2**	56.8	59.3	(2.6)	(2.5)
Catastrophe losses and reinstatement premiums	**(1.1)**	(0.7)	(3.0)	(0.4)	2.3
Prior year development net of premium adjustments	**0.7**	1.3	0.2	(0.6)	1.1
Net reserve discount benefit	**-**	-	-	-	-
Accident year loss ratio, as adjusted	**53.8**	57.4	56.5	(3.6)	0.9
Acquisition ratio	**27.2**	26.2	25.3	1.0	0.9
General operating expense ratio	**18.5**	18.5	17.5	-	1.0
Expense ratio	**45.7**	44.7	42.8	1.0	1.9
Combined ratio	**99.9**	101.5	102.1	(1.6)	(0.6)
Catastrophe losses and reinstatement premiums	**(1.1)**	(0.7)	(3.0)	(0.4)	2.3
Prior year development net of premium adjustments	**0.7**	1.3	0.2	(0.6)	1.1
Net reserve discount benefit	**-**	-	-	-	-
Accident year combined ratio, as adjusted	**99.5**	102.1	99.3	(2.6)	2.8

Personal Insurance ratios

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

Catastrophes*

(in millions)	# of Events		Americas		Asia Pacific		EMEA		Total
Year Ended December 31, 2014									
Flooding	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
Windstorms and hailstorms	**14**		**51**		**46**		**-**		**97**
Tropical cyclone	**4**		**9**		**19**		**-**		**28**
Earthquakes	**1**		**1**		**-**		**-**		**1**
Reinstatement premiums			**-**		**-**		**-**		**-**
Total catastrophe-related charges	**19**	**$**	**61**	**$**	**65**	**$**	**-**	**$**	**126**
Year Ended December 31, 2013									
Flooding	7	$	26	$	-	$	2	$	28
Windstorms and hailstorms	2		11		-		5		16
Tropical cyclone	-		-		33		-		33
Total catastrophe-related charges	9	$	37	$	33	$	7	$	77
Year Ended December 31, 2012									
Flooding	-	$	-	$	-	$	-	$	-
Windstorms and hailstorms	9		12		18		-		30
Tropical cyclone	3		343		9		-		352
Drought	-		-		-		-		-
Reinstatement premiums			-		-		-		-
Total catastrophe-related charges	12	$	355	$	27	$	-	$	382

* Catastrophes are generally weather or seismic events having a net impact on Personal Insurance in excess of $10 million each.

Severe Losses*

Years Ended December 31, *(in millions)*	# of Events		Americas		Asia Pacific		EMEA		Total
2014	**4**	**$**	**50**	**$**	**4**	**$**	**-**	**$**	**54**
2013	1	$	17	$	-	$	-	$	17
2012	4	$	13	$	20	$	-	$	33

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

2014 and 2013 Comparison

The combined ratio decreased by 1.6 points in 2014 compared to 2013, primarily due to a lower loss ratio, partially offset by a higher acquisition ratio as discussed below.

The accident year combined ratio, as adjusted, decreased by 2.6 points in 2014 compared to 2013, primarily due to an improved accident year loss ratio, as adjusted.

The accident year loss ratio, as adjusted, decreased by 3.6 points in 2014 compared to 2013, as a result of improvements across all lines of business. The lower losses associated with a warranty retail program were largely offset by an increase in the related profit sharing arrangement, which increased the acquisition ratio in 2014 compared to 2013. The severe losses of $54 million, resulting largely from four fire claims, accounted for 0.5 points of the accident year loss ratio, as adjusted, in 2014.

The general operating expense ratio remained unchanged in 2014 compared to 2013, reflecting the impact of efficiencies from organizational realignment initiatives, offset by increased technology-related expenses.

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2013 and 2012 Comparison

The combined ratio decreased by 0.6 points in 2013 compared to 2012, primarily due to a lower loss ratio, partially offset by higher acquisition and expense ratios as discussed below.

The accident year combined ratio, as adjusted, increased by 2.8 points in 2013 compared to 2012.

The accident year loss ratio, as adjusted, increased by 0.9 points in 2013 compared to 2012, primarily due to the effect of higher losses associated with a warranty retail program, group accident, and travel business in the U.S. and Canada, which in the aggregate increased the loss ratio by 1.7 points. This was partially offset by improvements in automobile and personal property, as a result of rate and underwriting actions taken in 2013 and prior years. The higher losses associated with the warranty retail program were largely offset by a decrease in the related profit sharing arrangement reflected in acquisition costs.

The acquisition ratio increased by 0.9 points in 2013 compared to 2012, primarily due to the combined effect of lower net premiums earned base, change in business mix and higher costs in growth-targeted lines of business. This was partially offset by a decrease in a profit sharing arrangement associated with the warranty retail program noted above.

The general operating expense ratio increased by 1.0 point in 2013 compared to 2012, primarily due to the increase in employee incentive compensation expense, partially offset by lower infrastructure project costs.

Corporate and Other

Corporate and Other Results

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

Years Ended December 31,				Percentage Change	
(in millions)	**2014**	2013	2012	2014 vs. 2013	2013 vs. 2012
Corporate and Other pre-tax operating loss:					
Direct Investment book	**$ 1,241**	$ 1,448	$ 1,215	(14)%	19%
Global Capital Markets	**359**	625	557	(43)	12
Run-off insurance Lines	**(445)**	403	(135)	NM	NM
Other businesses	**236**	(97)	(87)	NM	(11)
AIG Parent and Other:					
Equity in pre-tax operating earnings of AerCap[b]	**434**	-	-	NM	NM
Fair value earnings on PICC Group shares[c]	**37**	-	-	NM	NM
Corporate expenses, net:					

Other income (expense), net	**128**	90	149	42	(40)
General operating expenses	**(1,146)**	(1,115)	(1,054)	(3)	(6)
Total Corporate expenses, net	**(1,018)**	(1,025)	(905)	1	(13)
Severance expense[(a)]	**-**	(265)	-	NM	NM
Interest expense	**(1,233)**	(1,412)	(1,597)	13	12
Total AIG Parent and Other operating loss	**(1,780)**	(2,702)	(2,502)	34	(8)
Retained interests:					
Change in fair value of AIA securities, including realized gain in 2012	**-**	-	2,069	NM	NM
Change in fair value of ML III	**-**	-	2,888	NM	NM
Consolidation and eliminations	**1**	4	-	(75)	NM
Total Corporate and Other pre-tax operating income (loss)	**(388)**	(319)	4,005	(22)	NM

(a) Includes $263 million of severance expense attributable to Property Casualty and Personal Insurance operating segments.

(b) Represents our share of AerCap's pre-tax operating income, which excludes certain post-acquisition transaction expenses incurred by AerCap in connection with its acquisition of ILFC and the difference between expensing AerCap's maintenance rights assets over the remaining lease term as compared to the remaining economic life of the related aircraft.

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(c) During 2014, the Life Insurance Companies sold their investment in PICC Group to AIG Parent.

Direct Investment Book Results

2014 and 2013 Comparison

DIB pre-tax operating income decreased in 2014 compared to 2013 primarily due to lower fair value appreciation on asset-backed security (ABS) collateralized debt obligations (CDOs) and declines in net credit valuation adjustments on assets and liabilities for which the fair value option was elected, partially offset by lower interest expense on borrowings resulting from redemptions and repurchases of DIB debt in 2014.

Fair value appreciation on ABS CDOs was $789 million and $954 million in 2014 and 2013, respectively. The fair value appreciation on the ABS CDOs was higher in 2013, driven primarily by improved collateral pricing due to more significant improvements in home price indices and amortization of the underlying collateral.

Net credit valuation adjustment gains of $291 million and $444 million were recognized in 2014 and 2013, respectively. The decrease resulted primarily from lower gains on assets due to more significant widening of counterparty credit spreads in 2014 compared to 2013.

2013 and 2012 Comparison

DIB pre-tax operating income increased in 2013 compared to 2012 primarily due to fair value appreciation on ABS CDOs that were acquired in the fourth quarter of 2012, partially offset by a decline in net credit valuation adjustments on assets and liabilities for which the fair value option was elected.

Fair value appreciation on ABS CDOs was $954 million in 2013 driven primarily by improved collateral pricing due to improvements in home price indices and amortization of the underlying collateral.

Net credit valuation adjustment gains of $444 million and $789 million were recognized in 2013 and 2012, respectively. The decrease resulted primarily from a decline in the portfolio size due to sales and maturities as well as lower gains on assets due to less significant tightening of counterparty credit spreads, partially offset by lower losses on liabilities due to less significant tightening of AIG's credit spreads in 2013 compared to 2012.

The following table presents credit valuation adjustment gains (losses) for the DIB (excluding intercompany transactions):

Years Ended December 31, *(in millions)*	**2014**	2013	2012
Counterparty Credit Valuation Adjustment on Assets:			

Other bond securities	**$ 322**	$ 488	$ 1,401
Loans and other assets	**-**	10	29
Increase in assets	**322**	498	1,430
AIG's Own Credit Valuation Adjustment on Liabilities:			
Notes and bonds payable	**(29)**	(88)	(526)
Guaranteed Investment Agreements	**(1)**	41	(81)
Other liabilities	**(1)**	(7)	(34)
Increase in liabilities	**(31)**	(54)	(641)
Net increase to pre-tax operating income	**$ 291**	$ 444	$ 789

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Global Capital Markets Results

2014 and 2013 Comparison

GCM's pre-tax operating income decreased in 2014 compared to 2013 primarily due to declines in unrealized market valuation gains related to the super senior credit default swap (CDS) portfolio and declines in net credit valuation adjustments on derivative assets and liabilities, partially offset by gains realized upon unwinding certain positions and a decrease in operating expenses. As previously disclosed in prior quarters, a state regulatory agency has requested additional information relating to the unwinding of a position on which we realized gains of $196 million in 2014.

Unrealized market valuation gains on the CDS portfolio of $256 million and $550 million were recognized in 2014 and 2013, respectively. The decline resulted primarily from amortization and price movements within the CDS portfolio.

Net credit valuation adjustment losses of $98 million were recognized in 2014 compared to net credit valuation adjustment gains of $195 million in the prior year. The decline resulted primarily from the recognition of credit valuation losses on derivative assets in 2014 due to higher exposure of uncollateralized derivative assets compared to credit valuation gains on uncollateralized derivative assets in the prior year due to the tightening of counterparty credit spreads.

2013 and 2012 Comparison

GCM's pre-tax operating income increased in 2013 compared to 2012 primarily due to an improvement in net credit valuation adjustments on derivative assets and liabilities, partially offset by a decline in unrealized market valuation gains related to the super senior CDS portfolio and an increase in operating expenses.

Net credit valuation adjustment gains of $195 million were recognized in 2013 compared to net credit valuation adjustment losses of $30 million in 2012. The improvement resulted primarily from lower losses on derivative liabilities due to less significant tightening of AIG's credit spreads in 2013 compared to 2012 and higher gains on derivative assets due to more significant tightening of counterparty credit spreads in 2013 compared to 2012.

Unrealized market valuation gains on the CDS portfolio of $550 million and $617 million were recognized in 2013 and 2012, respectively. The decline resulted primarily from amortization, price movements, terminations and maturities within the CDS portfolio.

Run-off Insurance Lines Results

2014 and 2013 Comparison

Run-off insurance lines reported a pre-tax operating loss of $445 million in 2014 compared to income of

$403 million in 2013, primarily as a result of a $407 million charge from a decrease in reserve discount in 2014 compared to a $631 million benefit from an increase in discount in 2013. This discounting-related charge was partially offset by a $98 million decrease in net adverse prior year loss reserve development and an improvement in current accident year loss experience, particularly in the environmental liability business (2004 and prior). The discount charge was primarily due to the decline in risk free rates during 2014 used under Pennsylvania and Delaware prescribed or permitted practices, change in payout pattern assumptions, including the effect of commutations and accelerated settlements for the certain Excess Workers' Compensation reserves, as well as accretion.See Insurance Reserves - Discounting of Reserves for additional information.

2013 and 2012 Comparison

Run-off insurance lines reported pre-tax operating income of $403 million in 2013 compared to a loss of $135 million in 2012, primarily as a result of a $631 million benefit in reserve discount compared to a $37 million charge in 2012, partially offset by a $98 million increase in net adverse prior year loss reserve development. The discount benefit was primarily due the use of permitted practices from state regulators to use payout patterns specific to the excess workers compensation reserves and a discount rate based on the forward U.S Treasury curve plus a liquidity premium (as opposed to the previously prescribed discount factors.

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Other Businesses

2014 and 2013 Comparison

Other businesses' pre-tax operating income improved in 2014 compared to 2013 due to an increase in gains on investments in life settlements resulting from higher net death benefits.

2013 and 2012 Comparison

Other businesses' pre-tax operating loss in 2013 was essentially flat compared to 2012.

AIG Parent and Other Results

2014 and 2013 Comparison

AIG Parent and Other's pre tax operating losses decreased in 2014 compared to 2013 primarily due to our share of AerCap's pre-tax operating income, which is accounted for under the equity method, and lower interest expense from ongoing debt management activities described in Liquidity and Capital Resources, partially offset by an increase in general operating expenses.

General operating expenses increased in 2014 compared to 2013 as a result of centralizing processes to lower-cost locations and increased costs related to investments in technology.

2013 and 2012 Comparison

AIG Parent and Other reported an increase in pre-tax operating losses in 2013 compared to 2012 primarily due to severance charges and higher general operating expenses. These increases were partially offset by lower interest expense due to various debt management activities described in Liquidity and Capital Resources.

General operating expenses increased in 2013 compared to 2012 due to higher incentive compensation costs. In addition, 2012 included reductions in expenses of $211 million resulting from the decrease in the estimate of the liability for the Department of the Treasury's underwriting fees in connection with sales of AIG Common Stock.

Retained Interests

Change in Fair Value of AIA Securities Prior to Their Sale

We sold our remaining 33 percent interest in AIA ordinary shares for proceeds of $14.5 billion and a net gain of $2.1 billion through three sale transactions on March 7, September 11, and December 20, 2012.

Change in Fair Value of ML III Prior to Liquidation

The gains attributable to AIG's interest in ML III for 2012 were based in part on the completion of the final auction of ML III assets by the FRBNY, in the third quarter of 2012.

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Overview

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

- A decrease in interest rates on investment grade fixed maturity securities, partially offset by the widening of spreads, resulted in net unrealized gains in the investment portfolio. 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.

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

- Net investment income benefitted from positive performance on fixed maturity securities for which we elected the fair value option, primarily driven by lower interest rates as well as income on alternative investments, which continued to benefit from equity market performance.

- Blended investment yields on new Non-Life and Life Insurance Companies' investments were lower than blended rates on investments that were sold, matured or called.

- Other-than-temporary impairments remained at low levels.

- The sale of ILFC to AerCap resulted in AIG receiving a 46 percent ownership interest in the outstanding common stock of AerCap, which is included in Other invested assets and accounted for under the equity method.

Investment Strategies

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

Some of our key investment strategies are as follows:

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

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

- While more of a focus is placed on asset-liability matching in Life Insurance Companies, our fundamental strategy across all of our investment portfolios is to match the duration characteristics of the liabilities with assets of comparable duration, to the extent practicable.

- AIG Parent actively manages its assets and liabilities in terms of products, counterparties and duration. AIG Parent's liquidity sources are held in the form of cash, short-term investments and publicly traded, intermediate term investment-

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grade rated fixed maturity securities. Based upon an assessment of its immediate and longer-term funding needs, AIG Parent purchases publicly traded, intermediate term, investment-grade rated fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

Investments by Legal Entity

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

(in millions)		Non-Life Insurance Companies		Life Insurance Companies		Corporate and Other		Consolidation and Elimination
December 31, 2014								
Fixed maturity securities:								
Bonds available for sale, at fair value	**$**	**92,942**	**$**	**164,527**	**$**	**5,933**	**$**	**(3,543**
Other bond securities, at fair value		**1,733**		**2,785**		**15,634**		**(440**
Equity securities:								
Common and preferred stock available for sale, at fair value		**4,241**		**150**		**4**		
Other Common and preferred stock, at fair value		**495**		**-**		**554**		
Mortgage and other loans receivable, net of allowance		**6,686**		**20,874**		**704**		**(3,274**
Other invested assets		**10,372**		**11,916**		**12,109**		**12**
Short-term investments		**4,154**		**2,131**		**5,827**		**(869**
Total investments*		**120,623**		**202,383**		**40,765**		**(8,005**
Cash		**1,191**		**451**		**116**		
Total invested assets	**$**	**121,814**	**$**	**202,834**	**$**	**40,881**	**$**	**(8,005**
December 31, 2013								
Fixed maturity securities:								
Bonds available for sale, at fair value	$	97,202	**$**	158,225	**$**	7,282	$	(4,435
Other bond securities, at fair value		1,995		2,406		18,558		(336
Equity securities:								
Common and preferred stock available for sale, at fair value		3,574		80		2		
Other Common and preferred stock, at fair value		198		538		98		
Mortgage and other loans receivable, net of allowance		4,088		19,209		850		(3,382
Other invested assets		9,339		13,026		6,398		(104
Short-term investments		5,420		6,462		10,882		(1,147
Total investments*		121,816		199,946		44,070		(9,404
Cash		1,496		584		161		
Total invested assets	$	123,312	**$**	200,530	**$**	44,231	$	(9,404

* At December 31, 2014, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 89 percent and 11 percent, respectively, at December 31, 2013.

The following table presents the components of Net Investment Income:

Years Ended December 31, *(in millions)*		**2014**		2013		2012
Interest and dividends	**$**	**13,246**	$	13,199	$	13,544
Alternative investments		**2,624**		2,803		1,769
Other investment income*		**726**		356		5,634
Investment expenses		**(517)**		(548)		(604)
Total net investment income	**$**	**16,079**	$	15,810	$	20,343

* Includes changes in fair value of certain fixed maturity securities where the fair value option has been elected and which are used to economically hedge the interest rate risk in GMWB embedded derivatives. For the years ended December 31, 2014, 2013 and 2012, the net investment income (loss) recorded on these securities was $260 million, $(161) million and $37 million, respectively.

Net investment income for 2014 increased compared to 2013 primarily due to positive performance on bonds where we elected the fair value option, driven by movements in interest rates, partially offset by lower income on alternative investments

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due to equity market performance and lower reinvestment yields on our fixed maturity securities portfolio due to the low interest rate environment.

Net investment income for 2013 decreased compared to 2012 primarily due to fair value gains from our investments in ML II, ML III and AIA prior to their sale in 2012.

Non-Life Insurance Companies

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

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

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

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

Fixed maturity investments of the Non-Life Insurance Companies domestic operations, with an average duration of 4.3 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns, as well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

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

Life Insurance Companies

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

The Life Insurance Companies use asset liability management as a primary tool to monitor and manage risk in their businesses. The Life Insurance Companies fundamental investment strategy is to maintain a diversified, high quality portfolio of fixed maturity securities with the intent to largely match the characteristics of liabilities, including duration, which is a measure of sensitivity to changes in interest rates. The investment portfolio of each product line is tailored to the specific

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characteristics of its insurance liabilities, and as a result, certain portfolios are shorter in duration and others are longer in duration. An extended low interest rate environment may result in a lengthening of liability durations from initial estimates, primarily due to lower lapses.

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

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

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

Fixed maturity investments of the Life Insurance Companies domestic operations, with an average duration of 6.62 years, are comprised of taxable corporate bonds, as well as taxable municipal and government bonds, and agency and non agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on its composite ratings.

Fixed maturity investments held in the Life Insurance Companies foreign operations are of high quality, primarily rated A or higher based on composite ratings, and intermediate duration, averaging 12.68 years.

NAIC Designations of Fixed Maturity Securities

The Securities Valuation Office (SVO) of the NAIC evaluates the investments of U.S. insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called ‘NAIC Designations.’ In general, NAIC Designations of ‘1’ highest quality, or ‘2’ high quality, include fixed maturity securities considered investment grade, while NAIC Designations of ‘3’ through ‘6’ generally include fixed maturity securities referred to as below investment grade. The NAIC has adopted revised rating methodologies for certain structured securities, including non-agency RMBS and CMBS, which are intended to enable a more precise assessment of the value of such structured securities and increase the accuracy in assessing expected losses to better determine the appropriate capital requirement for such structured securities. These methodologies result in an improved NAIC Designation for such securities compared to the rating typically assigned by the three major rating agencies. The following tables summarize the ratings distribution of Life Insurance Companies fixed maturity security portfolio by NAIC Designation, and the distribution by composite AIG credit rating, which is generally based on ratings of the three major rating agencies. See Investments – Credit Ratings herein for a full description of the composite AIG credit ratings.

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

December 31, 2014
(in millions)

NAIC Designation	1	2	Total Investment Grade	3	4	5	6	Inves
Other fixed maturity securities	$48,633	$61,428	$ 110,061	$4,817	$2,372	$237	$136	$
Mortgage-backed, asset-backed and collateralized	42,370	1,598	43,968	473	168	170	657	
Total*	$91,003	$63,026	$ 154,029	$5,290	$2,540	$407	$793	$

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

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

December 31, 2014
(in millions)

Composite AIG Credit Rating	AAA/AA/A	BBB	Total Investment Grade	BB	B	CCC and Lower	
Other fixed maturity securities	$ 48,550	$ 61,875	$ 110,425	$ 4,354	$ 2,538	$ 306	$
Mortgage-backed, asset-backed and collateralized	26,240	2,893	29,133	1,470	1,613	13,220	
Total*	$ 74,790	$ 64,768	$ 139,558	$ 5,824	$ 4,151	$ 13,526	$

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

Credit Ratings

At December 31, 2014, approximately 90 percent of our fixed maturity securities were held by our domestic entities. Approximately 17 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 17 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's Investors' Service Inc. (Moody's), Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill

Companies, Inc. (S&P), or similar foreign rating services. Rating services are not available for some foreign-issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2014, approximately 17 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately five percent were below investment grade or not rated. Approximately 44 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Composite AIG Credit Ratings

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

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

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

	Available for Sale		Other		Total	
(in millions)	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013	**December 31, 2014**	December 31, 2013
Rating:						
Other fixed maturity securities						
AAA	$ **15,463**	$ 17,437	$ **5,322**	$ 5,510	$ **20,785**	$ 22,947
AA	**36,730**	39,478	**224**	261	**36,954**	39,739
A	**56,693**	56,838	**242**	445	**56,935**	57,283
BBB	**75,607**	75,668	**250**	478	**75,857**	76,146
Below investment grade	**10,651**	9,904	**303**	321	**10,954**	10,225
Non-rated	**1,035**	311	**-**	-	**1,035**	311
Total	$ **196,179**	$ 199,636	$ **6,341**	$ 7,015	$ **202,520**	$ 206,651
Mortgage-backed, asset-backed and collateralized						
AAA	$ **24,783**	$ 21,982	$ **2,313**	$ 3,120	$ **27,096**	$ 25,102
AA	**4,078**	3,404	**1,549**	2,357	**5,627**	5,761
A	**7,606**	6,906	**494**	660	**8,100**	7,566
BBB	**3,813**	3,973	**620**	679	**4,433**	4,652
Below investment grade	**23,376**	22,333	**8,314**	8,683	**31,690**	31,016
Non-rated	**24**	40	**81**	109	**105**	149
Total	$ **63,680**	$ 58,638	$ **13,371**	$ 15,608	$ **77,051**	$ 74,246
Total						
AAA	$ **40,246**	$ 39,419	$ **7,635**	$ 8,630	$ **47,881**	$ 48,049
AA	**40,808**	42,882	**1,773**	2,618	**42,581**	45,500
A	**64,299**	63,744	**736**	1,105	**65,035**	64,849
BBB	**79,420**	79,641	**870**	1,157	**80,290**	80,798
Below investment grade	**34,027**	32,237	**8,617**	9,004	**42,644**	41,241
Non-rated	**1,059**	351	**81**	109	**1,140**	460
Total	$ **259,859**	$ 258,274	$ **19,712**	$ 22,623	$ **279,571**	$ 280,897

Available for Sale Investments

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

	Fair Value at December 31,	Fair Value at December 31,

(in millions)	**2014**	2013
Bonds available for sale:		
U.S. government and government sponsored entities	**$ 2,992**	$ 3,195
Obligations of states, municipalities and political subdivisions	**27,659**	29,380
Non-U.S. governments	**21,095**	22,509
Corporate debt	**144,433**	144,552
Mortgage-backed, asset-backed and collateralized:		
RMBS	**37,520**	36,148
CMBS	**12,885**	11,482
CDO/ABS	**13,275**	11,008
Total mortgage-backed, asset-backed and collateralized	**63,680**	58,638
Total bonds available for sale*	**259,859**	258,274

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Equity securities available for sale:		
Common stock	**3,629**	3,219
Preferred stock	**25**	27
Mutual funds	**741**	410
Total equity securities available for sale	**4,395**	3,656
Total	**$ 264,254**	$ 261,930

* At December 31, 2014 and 2013, the fair value of bonds available for sale held by us that were below investment grade or not rated totaled $35.1 billion and $32.6 billion, respectively.

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

(in millions)	**December 31, 2014**	December 31, 2013
Japan	**$ 5,728**	$ 6,350
Canada	**2,181**	2,714
Germany	**1,315**	1,281
Mexico	**661**	622
United Kingdom	**648**	510
Netherlands	**639**	759
Norway	**619**	682
France	**614**	1,005
Singapore	**545**	457
South Korea	**465**	538
Other	**7,682**	7,593
Total	**$ 21,097**	$ 22,511

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

	December 31, 2014					
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products	Total	December 31, 2013 Total
Euro-Zone countries:						
France	**$ 614**	**$ 1,372**	**$ 2,512**	**$ -**	**$ 4,498**	$ 5,158
Netherlands	**639**	**1,357**	**1,819**	**461**	**4,276**	4,396
Germany	**1,315**	**431**	**2,375**	**34**	**4,155**	4,687
Spain	**49**	**407**	**1,080**	**21**	**1,557**	1,844
Italy	**19**	**256**	**957**	**13**	**1,245**	1,351
Belgium	**236**	**111**	**626**	**-**	**973**	842
Ireland	**-**	**-**	**682**	**168**	**850**	692
Finland	**70**	**31**	**134**	**-**	**235**	281
Luxembourg	**-**	**15**	**209**	**19**	**243**	206

Austria		133		12		10		-		155	250
Other Euro-Zone*		703		88		229		2		1,022	902
Total Euro-Zone	$	3,778	$	4,080	$	10,633	$	718	$	19,209	$ 20,609
Remainder of Europe											
United Kingdom	$	648	$	3,224	$	8,006	$	4,198	$	16,076	$ 16,819
Switzerland		101		1,231		1,609		-		2,941	2,898
Sweden		213		653		269		-		1,135	1,605
Norway		619		63		164		-		846	1,057
Russian Federation		150		16		145		-		311	516
Other remainder of Europe		233		128		81		52		494	523
Total remainder of Europe	$	1,964	$	5,315	$	10,274	$	4,250	$	21,803	$ 23,418
Total	$	5,742	$	9,395	$	20,907	$	4,968	$	41,012	$ 44,027

* At December 31, 2014, we had no material credit exposure to the government of Greece.

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Investments in Municipal Bonds

At December 31, 2014, the U.S. municipal bond portfolio of Non-Life Insurance Companies was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 96 percent of the portfolio rated A or higher.

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

	December 31, 2014				
(in millions)	State General Obligation	Local General Obligation	Revenue	Total Fair Value	December 31, 2013 Total Fair Value
State:					
California	$ 742	$ 888	$ 3,077	$ 4,707	$ 4,295
New York	36	591	3,489	4,116	4,193
Texas	274	1,596	1,486	3,356	4,104
Massachusetts	662	-	755	1,417	1,458
Illinois	115	428	821	1,364	1,377
Washington	497	136	645	1,278	1,380
Florida	183	9	860	1,052	1,130
Virginia	81	80	757	918	980
Georgia	286	159	374	819	954
Arizona	-	101	633	734	836
Washington DC	125	-	482	607	534
Ohio	151	36	417	604	624
Pennsylvania	231	41	265	537	523
All other states	1,190	645	4,315	6,150	6,992
Total[(a)(b)]	$ 4,573	$ 4,710	$ 18,376	$ 27,659	$ 29,380

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

(b) Includes $4.0 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

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

Industry Category *(in millions)*	**Fair Value at December 31, 2014**	Fair Value at December 31, 2013
Financial institutions:		
Money Center /Global Bank Groups	**$ 10,682**	$ 11,250
Regional banks — other	**543**	594
Life insurance	**3,575**	3,918
Securities firms and other finance companies	**422**	458
Insurance non-life	**5,625**	4,899
Regional banks — North America	**6,636**	6,875
Other financial institutions	**8,169**	7,900
Utilities	**23,705**	22,645
Communications	**10,316**	10,590
Consumer noncyclical	**16,792**	17,420
Capital goods	**8,594**	9,082
Energy	**12,038**	12,072
Consumer cyclical	**11,197**	10,787

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Basic	**9,187**	9,855
Other	**16,952**	16,207
Total *	**$ 144,433**	$ 144,552

* At both December 31, 2014 and December 31, 2013, approximately 93 percent of these investments were rated investment grade.

Investments in RMBS

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

(in millions)	**Fair Value at December 31, 2014**	Fair Value at December 31, 2013
Total RMBS		
2014	**$ 871**	$ -
2013	**2,724**	2,371
2012	**2,382**	2,375
2011	**5,310**	5,736
2010	**1,596**	1,843
2009 and prior*	**24,637**	23,823
Total RMBS	**$ 37,520**	$ 36,148
Agency		
2014	**$ 799**	$ -
2013	**2,625**	2,259
2012	**2,234**	2,164
2011	**3,428**	3,860
2010	**1,571**	1,797
2009 and prior	**1,753**	2,136
Total Agency	**$ 12,410**	$ 12,216
Alt-A		
2014	**-**	-
2013	**-**	-
2012	**-**	-
2011	**-**	-
2010	**$ 26**	$ 37
2009 and prior	**12,975**	10,894
Total Alt-A	**$ 13,001**	$ 10,931
Subprime		
2014	**-**	-
2013	**-**	-
2012	**-**	-
2011	**-**	-

2010		-		-
2009 and prior	$	2,423	$	2,386
Total Subprime	$	2,423	$	2,386
Prime non-agency				
2014	$	-	$	-
2013		8		27
2012		126		202
2011		1,882		1,876
2010		-		9
2009 and prior		7,047		7,944
Total Prime non-agency	$	9,063	$	10,058
Total Other housing related	$	623	$	557

* Includes approximately $13.5 billion and $11.3 billion at December 31, 2014 and 2013, respectively, of certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6, Investments – Purchase Credit Impaired (PCI) Securities to the Consolidated Financial Statements for additional discussion.

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

(in millions)	Fair Value at December 31, 2014	Fair Value at December 31, 2013
Rating:		
Total RMBS		
AAA	$ 14,699	$ 14,833
AA	418	477
A	546	598
BBB	911	1,051
Below investment grade[(a)]	20,937	19,163
Non-rated	9	26
Total RMBS[(b)]	$ 37,520	$ 36,148
Agency RMBS		
AAA	$ 12,405	$ 12,210
AA	5	6
Total Agency	$ 12,410	$ 12,216
Alt-A RMBS		
AAA	$ 7	$ 32
AA	33	54
A	85	114
BBB	317	381
Below investment grade[(a)]	12,559	10,350
Total Alt-A	$ 13,001	$ 10,931
Subprime RMBS		
AAA	$ 18	$ 27
AA	117	117
A	252	233
BBB	207	248
Below investment grade[(a)]	1,829	1,761
Total Subprime	$ 2,423	$ 2,386
Prime non-agency		
AAA	$ 2,076	$ 2,462
AA	253	288
A	205	248
BBB	351	383
Below investment grade[(a)]	6,169	6,651
Non-rated	9	26
Total prime non-agency	$ 9,063	$ 10,058
Total Other housing related	$ 623	$ 557

(a) Includes certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6, Investments – Purchased Credit Impaired (PCI) Securities to the Consolidated Financial Statements for additional discussion.

(b) The weighted average expected life was six years at December 31, 2014 and seven years at December 31, 2013.

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

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Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)		**Fair Value at December 31, 2014**		Fair Value at December 31, 2013
CMBS (traditional)	**$**	**11,265**	$	9,794
Agency		**1,372**		1,558
Other		**248**		130
Total	**$**	**12,885**	$	11,482

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

(in millions)		AAA		AA		A		BBB	Below Investment Grade	Non-Rated	Total
December 31, 2014											
Year:											
2014	**$**	**1,570**	**$**	**183**	**$**	**11**	**$**	**-**			