AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 05, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013 **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.)
180 Maiden Lane, New York, New York	**10038**
(Address of principal executive offices)	(Zip Code)

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

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

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 þ No o

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 þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 31, 2013, there were 1,476,350,909 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013
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PART I FINANCIAL INFORMATION

ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(in millions, except for share data)	June 30, 2013	December 31, 2012
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2013 $248,694; 2012 $246,149)	$ 261,229	$ 269,959
Bond trading securities, at fair value	23,789	24,584
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2013 $1,590; 2012 $1,640)	3,153	3,212
Common and preferred stock trading, at fair value	758	662
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2013 $59; 2012 $134)	19,857	19,482
Other invested assets (portion measured at fair value: 2013 $7,871; 2012 $7,056)	29,206	29,117
Short-term investments (portion measured at fair value: 2013 $6,099; 2012 $8,056)	20,215	28,808
Total investments	358,207	375,824
Cash	1,762	1,151
Accrued investment income	2,916	3,054
Premiums and other receivables, net of allowance	14,203	13,989
Reinsurance assets, net of allowance	26,506	25,595
Deferred income taxes	20,044	17,466
Deferred policy acquisition costs	8,770	8,182
Derivative assets, at fair value	2,805	3,671
Other assets, including restricted cash of $922 in 2013 and $1,878 in 2012 (portion measured at fair value: 2013 $582; 2012 $696)	9,298	10,399
Separate account assets, at fair value	61,759	57,337
Assets held for sale	31,168	31,965
Total assets	$ 537,438	$ 548,633
Liabilities:		
Liability for unpaid claims and claims adjustment expense	$ 84,054	$ 87,991
Unearned premiums	23,578	22,537
Future policy benefits for life and accident and health insurance contracts	39,844	40,523
Policyholder contract deposits (portion measured at fair value: 2013 $586; 2012 $1,257)	121,439	122,980
Other policyholder funds	5,400	6,267
Derivative liabilities, at fair value	3,124	4,061
Other liabilities (portion measured at fair value: 2013 $867; 2012 $1,080)	30,895	32,068
Long-term debt (portion measured at fair value: 2013 $7,013; 2012 $8,055)	42,614	48,500
Separate account liabilities	61,759	57,337

Liabilities held for sale	**26,496**	27,366
Total liabilities	**439,203**	449,630
Contingencies, commitments and guarantees (see Note 10)		
Redeemable noncontrolling interests (see Note 12)	**80**	334
AIG shareholders' equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2013 1,906,613,772 and 2012 1,906,611,680	**4,766**	4,766
Treasury stock, at cost; 2013 430,265,761; 2012 430,289,745 shares of common stock	**(13,923)**	(13,924)
Additional paid-in capital	**80,468**	80,410
Retained earnings	**19,113**	14,176
Accumulated other comprehensive income	**7,039**	12,574
Total AIG shareholders' equity	**97,463**	98,002
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale)	**692**	667
Total equity	**98,155**	98,669
Total liabilities and equity	**$ 537,438**	$ 548,633

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)

(dollars in millions, except per share data)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Revenues:				
Premiums	**$ 9,200**	$ 9,629	**$ 18,572**	$ 19,099
Policy fees	**623**	567	**1,238**	1,151
Net investment income	**3,844**	4,481	**8,008**	11,586
Net realized capital gains:				
Total other-than-temporary impairments on available for sale securities	**(17)**	(99)	**(57)**	(267)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	**(10)**	(51)	**(11)**	(336)
Net other-than-temporary impairments on available for sale securities recognized in net income	**(27)**	(150)	**(68)**	(603)
Other realized capital gains	**1,618**	549	**1,959**	751
Total net realized capital gains	**1,591**	399	**1,891**	148
Other income	**2,057**	1,145	**3,494**	1,734
Total revenues	**17,315**	16,221	**33,203**	33,718
Benefits, claims and expenses:				
Policyholder benefits and claims incurred	**8,090**	7,789	**14,818**	14,908
Interest credited to policyholder account balances	**972**	1,054	**1,989**	2,116
Amortization of deferred acquisition costs	**1,353**	1,472	**2,639**	2,819
Other acquisition and insurance expenses	**2,245**	2,264	**4,483**	4,522
Interest expense	**535**	567	**1,112**	1,132
Loss on extinguishment of debt	**38**	9	**378**	9
Other expenses	**935**	1,397	**1,805**	2,077
Total benefits, claims and expenses	**14,168**	14,552	**27,224**	27,583

Income from continuing operations before income tax expense		**3,147**		1,669		**5,979**		6,135
Income tax expense (benefit)		**422**		(491)		**1,116**		590
Income from continuing operations		**2,725**		2,160		**4,863**		5,545
Income from discontinued operations, net of income tax expense		**33**		179		**126**		243
Net income		**2,758**		2,339		**4,989**		5,788
Less:								
Net income from continuing operations attributable to noncontrolling interests:								
Nonvoting, callable, junior and senior preferred interests								208
Other		**27**		7		**52**		40
Total net income from continuing operations attributable to noncontrolling interests		**27**		7		**52**		248
Net income attributable to AIG	**$**	**2,731**	$	2,332	**$**	**4,937**	$	5,540
Income per common share attributable to AIG:								
Basic:								
Income from continuing operations	**$**	**1.83**	$	1.23	**$**	**3.26**	$	2.92
Income from discontinued operations	**$**	**0.02**	$	0.10	**$**	**0.08**	$	0.13
Net Income attributable to AIG	**$**	**1.85**	$	1.33	**$**	**3.34**	$	3.05
Diluted:								
Income from continuing operations	**$**	**1.82**	$	1.23	**$**	**3.25**	$	2.92
Income from discontinued operations	**$**	**0.02**	$	0.10	**$**	**0.08**	$	0.13
Net Income attributable to AIG	**$**	**1.84**	$	1.33	**$**	**3.33**	$	3.05
Weighted average shares outstanding:								
Basic		**1,476,512,720**		1,756,689,067		**1,476,491,719**		1,816,331,019
Diluted		**1,482,246,618**		1,756,714,475		**1,479,462,612**		1,816,358,625

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	**2013**	**2012**	**2013**	**2012**
Net income	**$ 2,758**	$ 2,339	**$ 4,989**	$ 5,788
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**(87)**	17	**195**	630
Change in unrealized appreciation (depreciation) of all other investments	**(4,446)**	1,305	**(5,234)**	2,286
Change in foreign currency translation adjustments	**(305)**	(427)	**(578)**	(336)
Change in net derivative gains arising from cash flow hedging activities		1		23
Change in retirement plan liabilities adjustment	**17**	14	**61**	32
Other comprehensive income (loss)	**(4,821)**	910	**(5,556)**	2,635
Comprehensive income (loss)	**(2,063)**	3,249	**(567)**	8,423
Comprehensive income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests				208
Comprehensive income (loss) attributable to other noncontrolling interests	**6**	(1)	**31**	37
Total comprehensive income (loss) attributable to noncontrolling interests	**6**	(1)	**31**	245
Comprehensive income (loss) attributable to AIG	**$ (2,069)**	$ 3,250	**$ (598)**	$ 8,178

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (unaudited)

Six Months Ended June 30, 2013 *(in millions)*	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Total AIG Share-holders' Equity**	**Non Redeemable Non-controlling Interests**	**Total Equity**
Balance, beginning of year	$ 4,766	$ (13,924)	$ 80,410	$ 14,176	$ 12,574	$ 98,002	$ 667	$ 98,669
Net income attributable to AIG or other noncontrolling interests*				4,937		4,937	48	4,985
Other comprehensive loss					(5,535)	(5,535)	(4)	(5,539)
Deferred income taxes			(7)			(7)		(7)
Net increase due to deconsolidation							1	1
Contributions from noncontrolling interests							13	13
Distributions to noncontrolling interests							(31)	(31)
Other		1	65			66	(2)	64
Balance, end of period	$ 4,766	$ (13,923)	$ 80,468	$ 19,113	$ 7,039	$ 97,463	$ 692	$ 98,155

* Excludes gains of $4 million for the six months ended June 30, 2013 attributable to redeemable noncontrolling interests. See Note 12 to the Condensed Consolidated Financial Statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Six Months Ended June 30, *(in millions)*	**2013**	2012
Cash flows from operating activities:		
Net income	**$ 4,989**	$ 5,788
Income from discontinued operations	**(126)**	(243)
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	**(1,665)**	(1,812)
Net losses on extinguishment of debt	**378**	9
Unrealized gains in earnings net	**(2,367)**	(4,096)
Equity in income from equity method investments, net of dividends or distributions	**(792)**	(395)
Depreciation and other amortization	**2,439**	2,558
Impairments of assets	**282**	957
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	**775**	(639)
Premiums and other receivables and payables net	**(518)**	515
Reinsurance assets and funds held under reinsurance treaties	**(544)**	(365)
Capitalization of deferred policy acquisition costs	**(2,953)**	(2,863)
Current and deferred income taxes net	**907**	286
Other, net	**(486)**	506
Total adjustments	**(4,544)**	(5,339)
Net cash provided by operating activities continuing operations	**319**	206
Net cash provided by operating activities discontinued operations	**1,355**	1,426
Net cash provided by operating activities	**1,674**	1,632
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	**19,164**	21,402
Trading securities	**2,850**	5,671
Other invested assets	**2,959**	7,718
Maturities of fixed maturity securities available for sale	**12,517**	10,728
Principal payments received on and sales of mortgage and other loans receivable	**1,602**	1,372
Purchases of:		
Available for sale investments	**(35,522)**	(22,644)
Trading securities	**(1,763)**	(8,743)
Other invested assets	**(2,423)**	(2,163)

Mortgage and other loans receivable		**(2,143)**		(1,402)
Net change in restricted cash		**956**		(284)
Net change in short-term investments		**8,524**		(859)
Other, net		**(417)**		123
Net cash provided by investing activities continuing operations		**6,304**		10,919
Net cash used in investing activities discontinued operations		**(233)**		(48)
Net cash provided by investing activities		**6,071**		10,871
Cash flows from financing activities:				
Proceeds from (payments for)				
Policyholder contract deposits		**6,757**		6,809
Policyholder contract withdrawals		**(8,066)**		(7,077)
Issuance of long-term debt		**486**		4,045
Repayments of long-term debt		**(5,403)**		(5,271)
Repayment of Department of the Treasury SPV Preferred Interests				(8,636)
Purchase of Common Stock				(5,000)
Other, net		**290**		2,599
Net cash used in financing activities continuing operations		**(5,936)**		(12,531)
Net cash used in financing activities discontinued operations		**(1,119)**		(190)
Net cash used in financing activities		**(7,055)**		(12,721)
Effect of exchange rate changes on cash		**(70)**		(24)
Net increase (decrease) in cash		**620**		(242)
Cash at beginning of period		**1,151**		1,474
Change in cash of businesses held for sale		**(9)**		
Cash at end of period	**$**	**1,762**	$	1,232

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:				
Interest	**$**	**2,408**	$	2,088
Taxes	**$**	**209**	$	206
Non-cash investing/financing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**1,980**	$	2,186

See accompanying Notes to Condensed Consolidated Financial Statements.

ITEM 1 / NOTE 1.   BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms "AIG," "we," "us" or "our" mean American International Group, Inc. and its consolidated subsidiaries and the term "AIG Parent" means American International Group, Inc. and not any of its consolidated subsidiaries.

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Annual Report). The condensed consolidated financial information as of December 31, 2012 included herein has been derived from audited consolidated financial statements in the 2012 Annual Report.

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

Interim period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2013 and prior to the issuance of these condensed consolidated financial statements.

Presentation Changes

Advisory fee income, and the related commissions and advisory fee expenses of AIG Life and Retirement's broker dealer business, are now being presented on a gross basis within Other income and Other expenses, respectively. Previously, these amounts were included on a net basis within Policy fees in AIG's Condensed Consolidated Statements of Income and in AIG Life and Retirement's segment results.

In addition, policyholder benefits related to certain payout annuities, primarily with life contingent features, are now being presented in the Condensed Consolidated Balance Sheets as Future policy benefits for life and accident and health insurance contracts instead of as Policyholder contract deposits.

Prior period amounts were conformed to the current period presentation. These changes did not affect Income from continuing operations before income tax expense, Net income attributable to AIG or Total liabilities.

Use of Estimates

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

classification of International Lease Finance Corporation (ILFC) as held for sale;

insurance liabilities, including property casualty and mortgage guaranty unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;

income tax assets and liabilities, including recoverability of our net deferred tax asset and the predictability of future tax operating profitability of the character necessary to realize the net deferred tax asset;

recoverability of assets, including reinsurance assets;

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

- estimated gross profits for investment-oriented products;
- other-than-temporary impairments of financial instruments;
- liabilities for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2013

Testing Indefinite-Lived Intangible Assets for Impairment

In July 2012, the Financial Accounting Standards Board (FASB) issued an accounting standard that allows a company, as a first step in an impairment review, to assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired. We are not required to calculate the fair value of an indefinite-lived intangible asset and perform a quantitative impairment test unless we determine, based on the results of the qualitative assessment, that it is more likely than not the asset is impaired.

The standard became effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted the standard on its required effective date of January 1, 2013. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Disclosures about Offsetting Assets and Liabilities

In January 2013, the FASB issued an accounting standard that clarifies the scope of transactions subject to disclosures about offsetting assets and liabilities. The standard applies to derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are offset either in accordance with specific criteria contained in the FASB Accounting Standards Codification or subject to a master netting arrangement or similar agreement.

The standard became effective for fiscal years and interim periods beginning on or after January 1, 2013. We adopted the standard on its required effective date of January 1, 2013 and applied it retrospectively to all comparative periods presented. The adoption of this standard had no material effect on our consolidated financial condition, results of operations or cash flows.

Reporting of Amounts in Comprehensive Income

In February 2013, the FASB issued an accounting standard requiring us to disclose the effect of reclassifying significant items out of Accumulated other comprehensive income on the respective line items of net income or to provide a cross-reference to other disclosures required under GAAP.

The standard became effective for annual and interim reporting periods beginning after December 15, 2012. We adopted the standard on its required effective date of January 1, 2013. The adoption of this standard had no effect on our consolidated financial condition, results of operations or cash flows.

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ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Future Application of Accounting Standards

Certain Obligations Resulting from Joint and Several Liability Arrangements

In February 2013, the FASB issued an accounting standard that requires us to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date as the sum of (i) the amount we agreed to pay on the basis of our arrangement among our co-obligors and (ii) any additional amount we expect to pay on behalf of our co-obligors.

The standard is effective for fiscal years and interim periods beginning after December 15, 2013, but earlier adoption is permitted. Upon adoption, the standard should be applied retrospectively to all prior periods presented. We plan to adopt the standard on its required effective date of January 1, 2014 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of an Investment within a Foreign Entity or of an Investment in a Foreign Entity

In March 2013, the FASB issued an accounting standard addressing whether consolidation guidance or foreign currency guidance applies to the release of the cumulative translation adjustment into net income when a parent sells all or a part of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or net assets that are a business (other than a sale of in-substance real estate) within a foreign entity. The guidance also resolves the diversity in practice for the cumulative translation adjustment treatment in business combinations achieved in stages involving foreign entities.

Under this standard, the entire amount of the cumulative translation adjustment associated with the foreign entity should be released into earnings when there has been: (i) a sale of a subsidiary or group of net assets within a foreign entity and the sale represents a complete or substantially complete liquidation of the foreign entity in which the subsidiary or the net assets had resided; (ii) a loss of a controlling financial interest in an investment in a foreign entity; or (iii) a change in accounting method from applying the equity method to an investment in a foreign entity to consolidating the foreign entity.

The standard is effective for fiscal years and interim periods beginning after December 15, 2013, and will be applied prospectively. We plan to adopt the standard on its required effective date of January 1, 2014 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Investment Company Guidance

In June 2013, the FASB issued an accounting standard that amends the criteria a company must meet to qualify as an investment company, clarifies the measurement guidance, and requires new disclosures for investment companies. An entity that is regulated by the Securities and Exchange Commission under the Investment Company Act of 1940 (the 1940 Act) qualifies as an investment company. Entities that are not regulated under the 1940 Act must have certain fundamental characteristics and must consider other characteristics to determine whether they qualify as investment companies. An entity's purpose and design should be considered when making the assessment.

The standard is effective for fiscal years and interim periods beginning after December 15, 2013. Earlier adoption is prohibited. An entity that no longer meets the requirements to be an investment company as a result of this standard should present the change in its status as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. An entity that is an investment company should apply the guidance prospectively as an adjustment to opening net assets as of the effective date. The adjustment to net assets represents both the difference between the fair value and the carrying amount of the entity's investments and any amount previously recognized in accumulated other comprehensive income. We plan to adopt the standard on its required effective date of January 1, 2014 and do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

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ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Inclusion of the Federal Funds Effective Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes

In July 2013, the FASB issued an accounting standard that permits the Federal Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes in addition to U.S. Treasury rates and LIBOR. The standard also removes the prohibition on the use of differing benchmark rates when entering into similar hedging relationships. The standard is effective on a prospective basis for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We do not expect the adoption of the standard to have a material effect on our consolidated financial condition, results of operations or cash flows.

Presentation of Unrecognized Tax Benefits

In July 2013, the FASB issued an accounting standard that requires a liability related to unrecognized tax benefits to be presented as a reduction to the related deferred tax asset for a net operating loss carryforward or a tax credit carryforward (the Carryforwards). When the Carryforwards are not available at the reporting date under the tax law of the applicable jurisdiction or the tax law of the applicable jurisdiction does not require, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit will be presented in the financial statements as a liability and will not be combined with the related deferred tax assets.

The standard is effective for fiscal years and interim periods beginning after December 15, 2013, but earlier adoption is permitted. Upon adoption, the standard should be applied prospectively to unrecognized tax benefits that existed at the effective date. Retrospective application is permitted. We plan to adopt the standard prospectively on its required effective date of January 1, 2014 and are assessing the effect of adopting the standard on our consolidated financial condition, results of operations and cash flows.

3. SEGMENT INFORMATION

We report the results of our operations through two reportable segments: AIG Property Casualty and AIG Life and Retirement. We evaluate performance based on revenues and pre-tax income (loss), excluding results from discontinued operations, because we believe this provides more meaningful information on how our operations are performing.

AIG Property Casualty Investment Income Allocation

Investment income is allocated to the Commercial Insurance and Consumer Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves and allocated capital. Commencing in the first quarter of 2013, AIG Property Casualty began applying similar duration and risk-free yields (plus an illiquidity premium) to the allocated capital of Commercial Insurance and Consumer Insurance as is applied to reserves.

AIG Life and Retirement Operating Segment Change

In 2012, AIG Life and Retirement announced several key organizational structure and management changes intended to better serve the organization's distribution partners and customers. Key aspects of the new structure include distinct product manufacturing divisions, shared annuity and life operations platforms and a unified all-channel distribution organization with access to all AIG Life and Retirement products.

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AIG Life and Retirement fully implemented these changes during the first quarter of 2013 and now presents its operating results in the following two operating segments:

Retail - product lines include life insurance and accident and health (A&H), fixed annuities, retirement income solutions (including variable and indexed annuities), brokerage services and retail mutual funds.

Institutional - product lines include group retirement, group benefits and institutional markets. The institutional markets product line consists of stable value wrap products, structured settlement and terminal funding annuities, private placement variable life and annuities, guaranteed investment contracts (GICs), and corporate and bank-owned life insurance.

These changes align financial reporting with the manner in which AIG's chief operating decision makers review the business to assess performance and to allocate resources. Prior period amounts have been revised to reflect the new structure, which did not affect previously reported pre-tax income from continuing operations for AIG Life and Retirement. Prior to the first quarter of 2013, AIG Life and Retirement was presented as two operating segments: Life Insurance and Retirement Services.

The following table presents AIG's operations by reportable segment:

Three Months Ended June 30, ***(in millions)***	**2013** Total Revenues	Pre-tax Income (Loss) from continuing operations	**2012** **Total Revenues**	**Pre-tax Income (Loss) from continuing operations**
AIG Property Casualty				
Commercial Insurance	$ **5,696**	$ **535**	$ 6,051	$ 745
Consumer Insurance	**3,347**	**91**	3,564	192
Other	**723**	**542**	405	24
Total AIG Property Casualty	**9,766**	**1,168**	10,020	961
AIG Life and Retirement				
Retail	**3,439**	**1,177**	2,501	341
Institutional	**2,609**	**542**	1,927	436
Total AIG Life and Retirement	**6,048**	**1,719**	4,428	777
Other Operations				
Mortgage Guaranty	**243**	**75**	224	48
Global Capital Markets	**232**	**175**	10	(25)
Direct Investment book	**815**	**720**	584	485
Retained Interests			813	813
Corporate & Other	**411**	**(701)**	251	(1,435)
Consolidation and elimination	**(10)**	**1**	(13)	(2)
Total Other Operations	**1,691**	**270**	1,869	(116)
AIG Consolidation and elimination	**(190)**	**(10)**	(96)	47

Total AIG Consolidated	**$ 17,315**	**$ 3,147**	$ 16,221	$ 1,669

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Six Months Ended June 30, *(in millions)*	2013 Total Revenues	2013 Pre-tax Income (Loss) from continuing operations	2012 Total Revenues	2012 Pre-tax Income (Loss) from continuing operations
AIG Property Casualty				
Commercial Insurance	$ **11,469**	$ **1,576**	$ 11,944	$ 1,390
Consumer Insurance	**6,853**	**244**	7,176	426
Other	**1,403**	**952**	698	55
Total AIG Property Casualty	**19,725**	**2,772**	19,818	1,871
AIG Life and Retirement				
Retail	**6,442**	**2,173**	4,900	825
Institutional	**4,346**	**1,116**	3,430	814
Total AIG Life and Retirement	**10,788**	**3,289**	8,330	1,639
Other Operations				
Mortgage Guaranty	**474**	**119**	424	56
Global Capital Markets	**505**	**402**	170	63
Direct Investment book	**1,226**	**1,032**	928	733
Retained Interests			3,860	3,860
Corporate & Other	**813**	**(1,699)**	513	(2,093)
Consolidation and elimination	**(19)**	**2**	(23)	1
Total Other Operations	**2,999**	**(144)**	5,872	2,620
AIG Consolidation and elimination	**(309)**	**62**	(302)	5
Total AIG Consolidated	$ **33,203**	$ **5,979**	$ 33,718	$ 6,135

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

International Lease Finance Corporation Sale

On December 9, 2012, American International Group, Inc. (AIG Parent), AIG Capital Corporation (Seller), a wholly-owned direct subsidiary of AIG Parent and the sole shareholder of International Lease Finance Corporation (ILFC), and Jumbo Acquisition Limited (Purchaser) entered into a definitive agreement (the Share Purchase Agreement) for the sale of 80.1 percent of the common stock of ILFC for approximately $4.2 billion in cash (the ILFC Transaction). The Share Purchase Agreement permits the Purchaser to elect to purchase an additional 9.9 percent of the common stock of ILFC for $522.5 million (the Option). On June 15, 2013, AIG, Seller and Purchaser entered into an amendment (the Amendment) to the Share Purchase Agreement, as amended by Amendment No. 1, dated May 10, 2013. The Amendment extended to July 31, 2013, the date on which any of AIG Parent, Seller or Purchaser may terminate the Share Purchase Agreement, as amended, if the closing of the ILFC Transaction has not yet occurred. Under the Amendment, AIG Parent and Seller may pursue (but not enter into definitive documentation for, or consummate) other offers for ILFC and may continue to pursue (but not engage in widespread solicitation of orders for, or request effectiveness of) the alternative of a public offering.

On July 15, 2013, the Purchaser delivered notice that it intended to exercise the Option, raising the size of the total purchase to 90 percent of the common stock of ILFC.

As of August 5, 2013, the closing of the ILFC Transaction has not occurred. AIG continues to consider ILFC as a non-core business and is continuing to pursue other options including a sale or initial public offering. We determined ILFC met the criteria for held for sale and discontinued operations accounting at June 30, 2013 and December 31, 2012.

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ITEM 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table summarizes the components of assets and liabilities, all of which consist of ILFC, held-for-sale:

(in millions)	June 30, 2013	December 31, 2012
Assets:		
Equity securities	$ 2	$ 1
Mortgage and other loans receivable, net	118	117
Flight equipment primarily under operating leases, net of accumulated depreciation	34,948	34,468
Short-term investments	1,521	1,861
Cash	73	63
Premiums and other receivables, net of allowance	334	308
Other assets	2,062	1,864
Assets of businesses held for sale	39,058	38,682
Less: Loss accrual	(7,890)	(6,717)
Total assets held for sale	$ 31,168	$ 31,965
Liabilities:		
Other liabilities	$ 3,222	$ 3,043
Long-term debt	23,274	24,323
Total liabilities held for sale	$ 26,496	$ 27,366

The following table summarizes income from discontinued operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2013	2012	2013	2012
Revenues:				
Aircraft leasing revenue	$ 1,115	$ 1,123	$ 2,193	$ 2,279
Net realized capital gains (losses)		(2)	(1)	(1)
Other income	(4)	(4)	(7)	(9)
Total revenues	1,111	1,117	2,185	2,269
Benefits, claims and expenses, excluding Aircraft leasing expenses	383	389	771	798
Aircraft leasing expenses	90	646	180	1,271
Income from discontinued operations	638	82	1,234	200

Gain (loss) on sale		**(591)**		(8)		**(1,027)**		12
Income from discontinued operations, before income tax expense		**47**		74		**207**		212
Income tax (benefit) expense		**14**		(105)		**81**		(31)
Income from discontinued operations, net of income tax	**$**	**33**	$	179	**$**	**126**	$	243

We recorded a $4.4 billion after-tax loss on the sale of ILFC for the year ended December 31, 2012. In the three- and six-month periods ended June 30, 2013, we recorded an additional $619 million and $1.2 billion pre-tax loss, respectively, on the sale of ILFC, largely offsetting ILFC operating results for such periods. ILFC operating results did not include depreciation and amortization expense as a result of its classification as held for sale, as depreciation and amortization expense is not recorded on the assets of a business after the business is classified as held-for-sale.

ALICO

In connection with the sale of American Life Insurance Company (ALICO) to MetLife, Inc. (MetLife), we recognized pre-tax gains of $28 million and $145 million, in the three- and six-month periods ended June 30, 2013, respectively,

ITEM 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

primarily attributable to refunds of taxes, interest and penalties after a successful appeal to the Japanese tax authorities related to the deduction of unrealized foreign exchange losses on certain bond securities held by ALICO prior to its sale to MetLife in 2010.

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

We carry certain of our financial instruments at fair value. We define the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. You should read the following in conjunction with Note 6 to the Consolidated Financial Statements in the 2012 Annual Report for a complete discussion of our accounting policies and procedures regarding fair value measurements.

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are classified in accordance with a fair value hierarchy consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

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

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

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, we must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In those cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

June 30, 2013 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting(a)**	**Cash Collateral(b)**	**Total**
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 266	$ 3,264	$	$	$	$ 3,530
Obligations of states, municipalities and political subdivisions		31,783	945			32,728
Non-U.S. governments	562	23,047	20			23,629
Corporate debt		142,323	1,634			143,957
RMBS		23,288	13,694			36,982
CMBS		5,226	5,455			10,681
CDO/ABS		3,580	6,142			9,722
Total bonds available for sale	828	232,511	27,890			261,229
Bond trading securities:						
U.S. government and government sponsored entities	164	5,897				6,061
Obligations of states, municipalities and political subdivisions		181				181
Non-U.S. governments		2				2
Corporate debt		1,098				1,098
RMBS		1,404	782			2,186
CMBS		881	820			1,701
CDO/ABS		3,588	8,972			12,560
Total bond trading securities	164	13,051	10,574			23,789
Equity securities available for sale:						
Common stock	2,817		76			2,893
Preferred stock		33	48			81
Mutual funds	170	9				179
Total equity securities available for sale	2,987	42	124			3,153
Equity securities trading	676	82				758
Mortgage and other loans receivable		59				59
Other invested assets	11	2,221	5,639			7,871
Derivative assets:						
Interest rate contracts	8	4,109	961			5,078
Foreign exchange contracts		117				117
Equity contracts	137	55	73			265
Commodity contracts		123	1			124
Credit contracts			56			56

Other contracts		1	36			37
Counterparty netting and cash collateral				(2,011)	(861)	(2,872)
Total derivative assets	145	4,405	1,127	(2,011)	(861)	2,805
Short-term investments	215	5,884				6,099
Separate account assets	58,796	2,963				61,759
Other assets		582				582
Total	$ 63,822	$ 261,800	$ 45,354	$ (2,011)	$ (861)	$ 368,104
Liabilities:						
Policyholder contract deposits	$	$	$ 586	$	$	$ 586
Derivative liabilities:						
Interest rate contracts		4,359	182			4,541
Foreign exchange contracts		155				155
Equity contracts		104	3			107
Commodity contracts		127				127
Credit contracts			1,650			1,650
Other contracts		26	141			167
Counterparty netting and cash collateral				(2,011)	(1,612)	(3,623)
Total derivative liabilities		4,771	1,976	(2,011)	(1,612)	3,124
Long-term debt		6,594	419			7,013
Other liabilities	116	751				867
Total	$ 116	$ 12,116	$ 2,981	$ (2,011)	$ (1,612)	$ 11,590

ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

December 31, 2012 *(in millions)*	Level 1	Level 2	Level 3	Counterparty Netting(a)	Cash Collateral(b)	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$	$ 3,483	$	$	$	$ 3,483
Obligations of states, municipalities and political subdivisions		34,681	1,024			35,705
Non-U.S. governments	1,004	25,782	14			26,800
Corporate debt		149,625	1,487			151,112
RMBS		22,730	11,662			34,392
CMBS		5,010	4,905			9,915
CDO/ABS		3,492	5,060			8,552
Total bonds available for sale	1,004	244,803	24,152			269,959
Bond trading securities:						
U.S. government and government sponsored entities	266	6,528				6,794
Non-U.S. governments		2				2
Corporate debt		1,320				1,320
RMBS		1,331	396			1,727
CMBS		1,424	803			2,227
CDO/ABS		3,969	8,545			12,514
Total bond trading securities	266	14,574	9,744			24,584
Equity securities available for sale:						
Common stock	3,002	3	24			3,029
Preferred stock		34	44			78
Mutual funds	83	22				105
Total equity securities available for sale	3,085	59	68			3,212
Equity securities trading	578	84				662
Mortgage and other loans receivable		134				134
Other invested assets	125	1,542	5,389			7,056
Derivative assets:						
Interest rate contracts	2	5,521	956			6,479
Foreign exchange contracts		104				104
Equity contracts	104	63	54			221
Commodity contracts		144	1			145
Credit contracts			60			60
Other contracts			38			38
Counterparty netting and cash collateral				(2,467)	(909)	(3,376)
Total derivative assets	106	5,832	1,109	(2,467)	(909)	3,671
Short-term investments	285	7,771				8,056
Separate account assets	54,430	2,907				57,337
Other assets		696				696

Total	$	59,879	$	278,402	$	40,462	$	(2,467)	$	(909)	$ 375,367
Liabilities:											
Policyholder contract deposits	$		$		$	1,257	$		$		$ 1,257
Derivative liabilities:											
Interest rate contracts				5,582		224					5,806
Foreign exchange contracts				174							174
Equity contracts				114		7					121
Commodity contracts				146							146
Credit contracts						2,051					2,051
Other contracts				6		200					206
Counterparty netting and cash collateral								(2,467)		(1,976)	(4,443)
Total derivative liabilities				6,022		2,482		(2,467)		(1,976)	4,061
Long-term debt				7,711		344					8,055
Other liabilities		30		1,050							1,080
Total	$	30	$	14,783	$	4,083	$	(2,467)	$	(1,976)	$ 14,453

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

(b) Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Condensed Consolidated Balance Sheets, and collateral received, not reflected in the Condensed Consolidated Balance Sheets, was $1.4 billion and $143 million, respectively, at June 30, 2013 and $1.9 billion and $299 million, respectively, at December 31, 2012.

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Transfers of Level 1 and Level 2 Assets and Liabilities

Our policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. During the three- and six-month periods ended June 30, 2013, we transferred $318 million and $557 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, respectively, as they are no longer considered actively traded. For similar reasons, during the six-month period ended June 30, 2013, we transferred $93 million of securities issued by the U.S. government and U.S. government-sponsored entities from Level 1 to Level 2. We had no material transfers from Level 1 to Level 2 for U.S. government and government-sponsored entities for the three-month period ended June 30, 2013. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2013.

During the three- and six-month periods ended June 30, 2012, we transferred $135.9 million of investments in securities issued by Non-U.S. governments from Level 1 to Level 2, as they were no longer considered actively traded. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2012.

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three- and six-month periods ended June 30, 2013 and 2012 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) related to the Level 3 assets and liabilities in the Condensed Consolidated Balance Sheets at June 30, 2013 and 2012:

(in millions)	Fair Value Beginning of Period(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers in	Gross Transfers out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended June 30, 2013								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 1,019	$ 24	$ (145)	$ 69	$	$ (22)	$ 945	$
Non-U.S. governments	18	(1)		4		(1)	20	
Corporate debt	1,449		(20)	8	256	(59)	1,634	
RMBS	12,096	204	(144)	1,529	9		13,694	
CMBS	5,315		(121)	263	7	(9)	5,455	
CDO/ABS	5,577	72	(76)	381	198	(10)	6,142	
Total bonds available for sale	25,474	299	(506)	2,254	470	(101)	27,890	
Bond trading securities:								
RMBS	730	(12)		64			782	(12)

CMBS	776	(1)		(41)	93	(7)	820	(16)
CDO/ABS	8,842	569		(572)	133		8,972	336
Total bond trading securities	10,348	556		(549)	226	(7)	10,574	308
Equity securities available for sale:								
Common stock	22	(9)	6	57			76	
Preferred stock	49		(1)				48	
Total equity securities available for sale	71	(9)	5	57			124	
Other invested assets	5,467	108	23	42	218	(219)	5,639	
Total	$ 41,360	$ 954	$ (478)	$ 1,804	$ 914	$ (327)	$ 44,227	$ 308
Liabilities:								
Policyholder contract deposits	$ (1,047)	$ 410	$	$ 51	$	$	$ (586)	$ 637
Derivative liabilities, net:								
Interest rate contracts	756	3		20			779	(7)
Equity contracts	66	8		(6)	2		70	(15)
Commodity contracts	1						1	
Credit contracts	(1,775)	138		43			(1,594)	(181)
Other contracts	(139)	13	8	13			(105)	10
Total derivative liabilities, net	(1,091)	162	8	70	2		(849)	(193)
Long-term debt[(b)]	(407)	(15)		3			(419)	13
Total	$ (2,545)	$ 557	$ 8	$ 124	$ 2	$	$ (1,854)	$ 457

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair Value Beginning of Period(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers in	Gross Transfers out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Six Months Ended June 30, 2013								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 1,024	$ 25	$ (150)	$ 205	$	$ (159)	$ 945	$
Non-U.S. governments	14			6	1	(1)	20	
Corporate debt	1,487	(4)	(14)	30	332	(197)	1,634	
RMBS	11,662	408	339	1,266	19		13,694	
CMBS	5,124	11	20	188	161	(49)	5,455	
CDO/ABS	4,841	97		1,020	379	(195)	6,142	
Total bonds available for sale	24,152	537	195	2,715	892	(601)	27,890	
Bond trading securities:								
RMBS	396	10		138	238		782	(40)
CMBS	812	11		(140)	251	(114)	820	(42)
CDO/ABS	8,536	853		(1,009)	620	(28)	8,972	217
Total bond trading securities	9,744	874		(1,011)	1,109	(142)	10,574	135
Equity securities available for								

sale:								
Common stock	24		5	47			76	
Preferred stock	44		4				48	
Total equity securities available for sale	68		9	47			124	
Other invested assets	5,389	169	10	40	344	(313)	5,639	
Total	$ 39,353	$ 1,580	$ 214	$ 1,791	$ 2,345	$ (1,056)	$ 44,227	$ 135
Liabilities:								
Policyholder contract deposits	$ (1,257)	$ 615	$	$ 56	$	$	$ (586)	$ 664
Derivative liabilities, net:								
Interest rate contracts	732	14		33			779	(9)
Equity contracts	47	36		(14)	1		70	(27)
Commodity contracts	1			(1)		1	1	1
Credit contracts	(1,991)	313		84			(1,594)	(396)
Other contracts	(162)	21	8	30	(2)		(105)	23
Total derivative liabilities, net	(1,373)	384	8	132	(1)	1	(849)	(408)
Long-term debt[(b)]	(344)	(95)		22	(2)		(419)	22
Total	$ (2,974)	$ 904	$ 8	$ 210	$ (3)	$ 1	$ (1,854)	$ 278

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Fair Value Beginning of Period(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended June 30, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 1,054	$ 31	$ (5)	$ (63)	$ 45	$ (49)	$ 1,013	$
Non-U.S. governments	15		(7)		5		13	
Corporate debt	1,323	(1)	(7)	5	55	(69)	1,306	
RMBS	13,240	195	10	(616)	7	(2,348)	10,488	
CMBS	4,173	2	14	492	12	(50)	4,643	
CDO/ABS	4,882	26	89	(91)	168		5,074	
Total bonds available for sale	24,687	253	94	(273)	292	(2,516)	22,537	
Bond trading securities:								
Corporate debt	5			(2)			3	
RMBS	314	(5)		(19)			290	(7)
CMBS	433	16		13	4	(9)	457	78
CDO/ABS	8,416	1,444		4,787			14,647	1,462
Total bond trading securities	9,168	1,455		4,779	4	(9)	15,397	1,533

Equity securities available for sale:								
Common stock	50	9		(19)	1		41	
Preferred stock	106		(31)	61	3		139	
Total equity securities available for sale	156	9	(31)	42	4		180	
Mortgage and other loans receivable	1						1	
Other invested assets	7,186	(32)	66	(68)	18	(121)	7,049	
Total	$ 41,198	$ 1,685	$ 129	$ 4,480	$ 318	$ (2,646)	$ 45,164	$ 1,533
Liabilities:								
Policyholder contract deposits	$ (782)	$ (408)	$	$ 2	$	$	$ (1,188)	$ 244
Derivative liabilities, net:								
Interest rate contracts	778	46		(63)			761	10
Equity contracts	40	(23)		11			28	
Commodity contracts	2			(2)		2	2	(1)
Credit contracts	(2,705)	344		(226)			(2,587)	(122)
Other contracts	(37)	422	(7)	(490)	(42)		(154)	(15)
Total derivatives liabilities, net	(1,922)	789	(7)	(770)	(42)	2	(1,950)	(128)
Long-term debt[(b)]	(575)	(268)		22		414	(407)	(25)
Total	$ (3,279)	$ 113	$ (7)	$ (746)	$ (42)	$ 416	$ (3,545)	$ 91

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(in millions)	Fair Value Beginning of Period(a)	Net Realized and Unrealized Gains (Losses) Included in Income	Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Six Months Ended June 30, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 960	$ 32	$ 11	$ 37	$ 45	$ (72)	$ 1,013	$
Non-U.S. governments	9		1	(2)	5		13	
Corporate debt	1,935	(17)	69	2	346	(1,029)	1,306	
RMBS	10,877	125	803	710	355	(2,382)	10,488	
CMBS	3,955	(67)	301	503	43	(92)	4,643	
CDO/ABS	4,220	40	266	(21)	606	(37)	5,074	
Total bonds available for sale	21,956	113	1,451	1,229	1,400	(3,612)	22,537	
Bond trading securities:								
Corporate debt	7			(4)			3	
RMBS	303	28		(38)		(3)	290	18
CMBS	554	49		(122)	36	(60)	457	83
CDO/ABS	8,432	3,065		3,150			14,647	2,816
Total bond trading securities	9,296	3,142		2,986	36	(63)	15,397	2,917
Equity securities								

available for sale:								
Common stock	57	23	(12)	(33)	6		41	
Preferred stock	99	2	(23)	69	3	(11)	139	
Total equity securities available for sale	156	25	(35)	36	9	(11)	180	
Mortgage and other loans receivable	1						1	
Other invested assets	6,618	(179)	276	33	760	(459)	7,049	
Total	$ 38,027	$ 3,101	$ 1,692	$ 4,284	$ 2,205	$ (4,145)	$ 45,164	$ 2,917
Liabilities:								
Policyholder contract deposits	$ (918)	$ (269)	$	$ (1)	$	$	$ (1,188)	$ 101
Derivative liabilities, net:								
Interest rate contracts	785	46		(70)			761	(38)
Foreign exchange contracts	2			(2)				
Equity contracts	28	(11)		13	(2)		28	
Commodity contracts	2			(2)		2	2	(3)
Credit contracts	(3,273)	201		485			(2,587)	(642)
Other contracts	33	12	2	(78)	(123)		(154)	24
Total derivatives liabilities, net	(2,423)	248	2	346	(125)	2	(1,950)	(659)
Long-term debt[b]	(508)	(378)	(77)	136		420	(407)	54
Total	$ (3,849)	$ (399)	$ (75)	$ 481	$ (125)	$ 422	$ (3,545)	$ (504)

(a) Total Level 3 derivative exposures have been netted in these tables for presentation purposes only.

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the Condensed Consolidated Statements of Income as follows:

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
Three Months Ended June 30, 2013				
Bonds available for sale	**$ 239**	**$ 6**	**$ 54**	**$ 299**
Bond trading securities	**(5)**		**561**	**556**
Equity securities available for sale		**(9)**		**(9)**
Other invested assets	**107**	**(22)**	**23**	**108**
Policyholder contract deposits		**410**		**410**
Derivative liabilities, net	**15**	**(5)**	**152**	**162**
Long-term debt			**(15)**	**(15)**
Three Months Ended June 30, 2012				
Bonds available for sale	$ 234	$ (9)	$ 28	$ 253
Bond trading securities	1,290		165	1,455
Equity securities available for sale		9		9
Other invested assets	5	(41)	4	(32)
Policyholder contract deposits		(408)		(408)
Derivative liabilities, net		72	717	789
Long-term debt			(268)	(268)
Six Months Ended June 30, 2013				
Bonds available for sale	**$ 449**	**$ 13**	**$ 75**	**$ 537**
Bond trading securities	**28**		**846**	**874**
Equity securities available for sale				
Other invested assets	**154**	**(28)**	**43**	**169**
Policyholder contract deposits		**615**		**615**
Derivative liabilities, net	**15**	**17**	**352**	**384**
Long-term debt			**(95)**	**(95)**
Six Months Ended June 30, 2012				
Bonds available for sale	$ 465	$ (384)	$ 32	$ 113
Bond trading securities	2,839		303	3,142
Equity securities available for sale		25		25
Other invested assets	(9)	(173)	3	(179)
Policyholder contract deposits		(269)		(269)
Derivative liabilities, net	(1)	61	188	248
Long-term debt			(378)	(378)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following tables present the gross components of purchases, sales, issues and settlements, net, shown above:

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issues and Settlements, Net(a)
Three Months Ended June 30, 2013				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 150**	**$ (81)**	**$**	**$ 69**
Non-U.S. governments	**5**		**(1)**	**4**
Corporate debt	**211**	**(114)**	**(89)**	**8**
RMBS	**2,110**		**(581)**	**1,529**
CMBS	**320**	**(18)**	**(39)**	**263**
CDO/ABS	**673**		**(292)**	**381**
Total bonds available for sale	**3,469**	**(213)**	**(1,002)**	**2,254**
Bond trading securities:				
RMBS	**108**		**(44)**	**64**
CMBS			**(41)**	**(41)**
CDO/ABS	**129**		**(701)**	**(572)**
Total bond trading securities	**237**		**(786)**	**(549)**
Equity securities available for sale	**58**	**(1)**		**57**
Other invested assets	**205**	**(16)**	**(147)**	**42**
Total assets	**$ 3,969**	**$ (230)**	**$ (1,935)**	**$ 1,804**
Liabilities:				
Policyholder contract deposits	**$**	**$ (6)**	**$ 57**	**$ 51**
Derivative liabilities, net	**2**	**3**	**65**	**70**
Long-term debt[(b)]			**3**	**3**
Total liabilities	**$ 2**	**$ (3)**	**$ 125**	**$ 124**
Three Months Ended June 30, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 97	$ (158)	$ (2)	$ (63)
Non-U.S. governments	1	(1)		
Corporate debt	80	(52)	(23)	5
RMBS	198	(268)	(546)	(616)
CMBS	596	(69)	(35)	492
CDO/ABS	203		(294)	(91)

Total bonds available for sale		1,175		(548)		(900)		(273)
Bond trading securities:								
Corporate debt						(2)		(2)
RMBS						(19)		(19)
CMBS		70		(49)		(8)		13
CDO/ABS		5,025				(238)		4,787
Total bond trading securities		5,095		(49)		(267)		4,779
Equity securities available for sale		56		(19)		5		42
Other invested assets		134		(29)		(173)		(68)
Total assets	$	6,460	$	(645)	$	(1,335)	$	4,480
Liabilities:								
Policyholder contract deposits	$		$	(8)	$	10	$	2
Derivative liabilities, net						(770)		(770)
Long-term debt[(b)]						22		22
Total liabilities	$		$	(8)	$	(738)	$	(746)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issues and Settlements, Net(a)
Six Months Ended June 30, 2013				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	**$ 308**	**$ (103)**	**$**	**$ 205**
Non-U.S. governments	**8**		**(2)**	**6**
Corporate debt	**308**	**(114)**	**(164)**	**30**
RMBS	**2,712**	**(231)**	**(1,215)**	**1,266**
CMBS	**693**	**(164)**	**(341)**	**188**
CDO/ABS	**1,471**	**(159)**	**(292)**	**1,020**
Total bonds available for sale	**5,500**	**(771)**	**(2,014)**	**2,715**
Bond trading securities:				
RMBS	**213**		**(75)**	**138**
CMBS	**19**	**(58)**	**(101)**	**(140)**
CDO/ABS	**318**		**(1,327)**	**(1,009)**
Total bond trading securities	**550**	**(58)**	**(1,503)**	**(1,011)**
Equity securities available for sale	**59**	**(11)**	**(1)**	**47**
Other invested assets	**448**	**(46)**	**(362)**	**40**
Total assets	**$ 6,557**	**$ (886)**	**$ (3,880)**	**$ 1,791**
Liabilities:				
Policyholder contract deposits	**$**	**$ (12)**	**$ 68**	**$ 56**
Derivative liabilities, net	**5**	**(1)**	**128**	**132**
Long-term debt(b)			**22**	**22**
Total liabilities	**$ 5**	**$ (13)**	**$ 218**	**$ 210**
Six Months Ended June 30, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 205	$ (166)	$ (2)	$ 37
Non-U.S. governments	1	(3)		(2)
Corporate debt	141	(53)	(86)	2
RMBS	2,110	(362)	(1,038)	710
CMBS	722	(133)	(86)	503
CDO/ABS	520	(4)	(537)	(21)

Total bonds available for sale		3,699		(721)		(1,749)		1,229
Bond trading securities:								
Corporate debt						(4)		(4)
RMBS						(38)		(38)
CMBS		183		(106)		(199)		(122)
CDO/ABS		5,025		(310)		(1,565)		3,150
Total bond trading securities		5,208		(416)		(1,806)		2,986
Equity securities		67		(33)		2		36
Other invested assets		400		(33)		(334)		33
Total assets	$	9,374	$	(1,203)	$	(3,887)	$	4,284
Liabilities:								
Policyholder contract deposits	$		$	(14)	$	13	$	(1)
Derivative liabilities, net		2				344		346
Other long-term debt[(b)]						136		136
Total liabilities	$	2	$	(14)	$	493	$	481

(a) There were no issuances during the three-and six-month periods ended June 30, 2013 and 2012.

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

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Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at June 30, 2013 and 2012 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

We record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income as shown in the table above excludes $17 million of net gains and $55 million of net losses related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2013, respectively, and includes $10 million and $12 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2013, respectively.

Transfers of Level 3 Assets

During the three- and six-month periods ended June 30, 2013, transfers into Level 3 assets included certain investments in private placement corporate debt, residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligations (CDO)/asset-backed securities (ABS), and investments in hedge funds and private equity funds.

The transfers of investments in RMBS, CMBS and CDO and certain ABS into Level 3 assets were due to decreases in market transparency and liquidity for individual security types.

Transfers of private placement corporate debt and certain ABS into Level 3 assets were primarily the result of limited market pricing information that required us to determine fair value for these securities based on inputs that are adjusted to better reflect our own assumptions regarding the characteristics of a specific security or associated market liquidity.

Certain investments in hedge funds were transferred into Level 3 as a result of limited market activity due to fund-imposed redemption restrictions.

Certain private equity fund investments were transferred into Level 3 due to these investments being carried at fair value and no longer being accounted for using the equity method of accounting, consistent with the changes in our ownership and the lack of ability to exercise more than minor influence over the respective investments.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable or a long-term interest rate significant to a valuation becoming short-term and thus observable. In addition, transfers out of Level 3 assets also occur when investments are no longer carried at fair value as the result of a change in the applicable accounting methodology, given changes in the nature and extent of our ownership interest.

During the three- and six-month periods ended June 30, 2013, transfers out of Level 3 assets primarily related to certain investments in municipal securities, private placement corporate debt, CMBS, CDO/ABS and investments in hedge funds.

Transfers of certain investments in municipal securities, CMBS and CDO/ABS out of Level 3 assets were based on consideration of market liquidity as well as related transparency of pricing and associated observable inputs for these investments.

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Transfers of private placement corporate debt out of Level 3 assets were primarily the result of using observable pricing information that reflects the fair value of those securities without the need for adjustment based on our own assumptions regarding the characteristics of a specific security or the current liquidity in the market.

The removal or easing of fund-imposed redemption restrictions resulted in the transfer of certain hedge fund investments out of Level 3 assets.

Transfers of Level 3 Liabilities

There were no significant transfers of derivative or other liabilities into or out of Level 3 for the three- and six-month periods ended June 30, 2013.

We use various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

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Quantitative Information About Level 3 Fair Value Measurements

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to us, such as data from pricing vendors and from internal valuation models. Because input information with respect to certain Level 3 instruments may not be reasonably available to us, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

(in millions)	Fair Value at June 30, 2013	Valuation Technique	Unobservable Input(a)	Range (Weighted Average)(a)
Assets:				
Corporate debt	$ 1,090	Discounted cash flow	Yield[b]	4.09% 10.93% (7.51%)
RMBS	12,119	Discounted cash flow	Constant prepayment rate[c]	0.00% 9.85% (4.61%)
			Loss severity[c]	42.79% 76.74% (59.76%)
			Constant default rate[c]	4.23% 12.92% (8.57%)
			Yield[c]	2.88% 7.41% (5.14%)
Certain CDO/ABS[d]	5,894	Discounted cash flow	Constant prepayment rate[c]	5.20% 14.00% (9.40%)
			Loss severity[c]	42.20% 64.60% (53.50%)
			Constant default rate[c]	3.20% 15.80% (8.30%)
			Yield[c]	5.60% 11.70% (9.50%)
Commercial mortgage backed securities	4,328	Discounted cash flow	Yield[b]	0.00% 17.11% (6.83%)
CDO/ABS Direct Investment Book	487	Binomial Expansion Technique (BET)	Recovery rate[b]	4.00% 63.00% (21.00%)
			Diversity score[b]	5 41 (14)
			Weighted average life[b]	1.21 10.10 years (5.26 years)
Liabilities:				
Policyholder contract deposits GMWB	586	Discounted cash flow	Equity implied volatility[b]	6.00% 39.00%
			Base lapse rates[b]	1.00% 40.00%
			Dynamic lapse rates[b]	0.20% 60.00%
			Mortality rates[b]	0.50% 40.00%
			Utilization rates[b]	0.50% 25.00%
Derivative Liabilities Credit contracts	1,190	BET	Recovery rates[b]	4.00% 34.00% (17.00%)

Diversity score(b)		9 37 (14)
Weighted average life(b)	4.82	10.10 years (5.99 years)

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

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

(c) Information received from independent third-party valuation service providers.

(d) Yield was the only input available for $285 million of total fair value at June 30, 2013.

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

Sensitivity to Changes in Unobservable Inputs

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

Corporate Debt

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

RMBS and Certain CDO/ABS

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

CMBS

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

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CDO/ABS Direct Investment book

The significant unobservable inputs used for certain CDO/ABS securities valued using the BET are recovery rates, diversity score, and the weighted average life of the portfolio. An increase in recovery rates and diversity score will have a directionally similar corresponding impact on the fair value of the portfolio. An increase in the weighted average life will decrease the fair value.

Policyholder contract deposits

The significant unobservable inputs used for embedded derivatives in policyholder contract deposits measured at fair value, mainly guaranteed minimum withdrawal benefits (GMWB) for variable annuity products, are equity implied volatility, base and dynamic lapse rates, mortality rates and utilization rates. Mortality, lapse and utilization rates may vary significantly depending upon age groups and duration. In general, increases in volatility and utilization rates will increase the fair value of the liability associated with GMWB, while increases in lapse rates and mortality rates will decrease the fair value of the liability.

Derivative liabilities credit contracts

The significant unobservable inputs used for Derivatives liabilities credit contracts are recovery rates, diversity scores, and the weighted average life of the portfolio. Our non-performance risk is also considered in the measurement of those liabilities. See Note 6 to the Consolidated Financial Statements in the 2012 Annual Report for a discussion of our accounting policies and procedures regarding incorporation of our credit risk in fair value measurements.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will increase the fair value measurement of the liability.

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

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

		June 30, 2013		December 31, 2012	
(in millions)	Investment Category Includes	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments	Fair Value Using Net Asset Value Per Share (or its equivalent)	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 2,671**	**$ 630**	$ 2,529	$ 669
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**286**	**40**	251	52
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company	**144**	**14**	157	16
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	**191**	**41**	184	36
Other	Includes multi-strategy and mezzanine strategies	**126**	**182**	112	100
Total private equity funds		**3,418**	**907**	3,233	873
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including	**908**	**2**	788	2

	mergers, acquisitions and other reorganizations				
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,492**		1,318	
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**480**		320	
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	**460**	**20**	316	
Emerging markets	Investments in the financial markets of developing countries	**221**			
Other	Includes multi-strategy and relative value strategies	**45**		66	
Total hedge funds		**3,606**	**22**	2,808	2
Total		**$ 7,024**	**$ 929**	$ 6,041	$ 875

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two-year increments. At June 30, 2013, assuming average original expected lives of 10 years for the funds, 65 percent of the total fair value using net asset value or its equivalent above would have expected remaining lives of less than three years, 33 percent between three and seven years and 2 percent between seven and 10 years.

Under contractual terms, hedge fund investments included above are redeemable monthly (16 percent), quarterly (39 percent), semi-annually (23 percent) and annually (22 percent), with redemption notices ranging from one day to 180 days. At June 30, 2013, however, investments representing approximately 74 percent of the total fair value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions, which may have been put in place at a fund's inception or thereafter, have pre-defined end dates and are generally expected to be lifted by the end of 2015. The restrictions that do not have stated end dates were primarily put in place prior to 2009. The partial restrictions relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

Fair Value Option

The following table presents the gains or losses recorded related to the eligible instruments for which AIG elected the fair value option*:

(in millions)	Gain (Loss) Three Months Ended June 30, 2013	2012	Gain (Loss) Six Months Ended June 30, 2013	2012
Assets:				
Mortgage and other loans receivable	**$ 1**	$ 9	**$ 2**	$ 31
Bonds and equity securities	**256**	263	**632**	907
Trading ML II interest				246
Trading ML III interest		1,306		2,558
Retained interest in AIA		(493)		1,302
Alternative Investments[(a)]	**122**		**206**	
Other, including Short-term investments	**2**	9	**5**	13
Liabilities:				
Long-term debt[(b)]	**313**	(218)	**322**	(664)
Other liabilities	**(2)**	26	**(6)**	(22)
Total gain (loss)[(c)]	**$ 692**	$ 902	**$ 1,161**	$ 4,371

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

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

(c) Excludes discontinued operations.

* We are required to carry other instruments such as derivatives, trading securities and certain other invested assets at fair value with changes in fair value recorded through Net income. We recognized gains of $606 million and $605 million for the three-and six-month periods ended June 30, 2013, respectively, and losses of $13 million and gains of $554 million for the three-and six-month periods ended June 30, 2012, respectively, related to these financial instruments.

See Notes 6 and 7 to the Consolidated Financial Statements in the 2012 Annual Report for additional information about AIG's policies for electing the fair value option and for recognizing, measuring, and disclosing interest and dividend income and interest expense.

We recognized gains of $19 million and losses of $15 million during the three- and six-month periods ended June 30, 2013, respectively, and gains of $63 million and losses of $495 million during the three- and six-month periods ended June 30, 2012, respectively, attributable to the observable effect of changes in credit spreads on our own liabilities for which the fair value option was elected. We calculate the effect of these credit spread changes using discounted

ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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cash flow techniques that incorporate current market interest rates, our observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as cash collateral posted.

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

(in millions)	June 30, 2013 Fair Value	June 30, 2013 Outstanding Principal Amount	June 30, 2013 Difference	December 31, 2012 Fair Value	December 31, 2012 Outstanding Principal Amount	December 31, 2012 Difference
Assets:						
Mortgage and other loans receivable	**$ 59**	**$ 58**	**$ 1**	$ 134	$ 141	$ (7)
Liabilities:						
Long-term debt*	**$ 7,013**	**$ 5,297**	**$ 1,716**	$ 8,055	$ 5,705	$ 2,350

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

There were no mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due or in non-accrual status at June 30, 2013 and December 31, 2012.

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended June 30,		Impairment Charges Six Months Ended June 30,	
(in millions)	Level 1	Level 2	Level 3	Total	2013	2012	2013	2012
June 30, 2013								
Alternative investments	**$**	**$**	**$ 1,774**	**$ 1,774**	**$ 80**	$ 83	**$ 159**	$ 176
Other assets		**9**	**59**	**68**	**11**		**24**	8
Total	**$**	**$ 9**	**$ 1,833**	**$ 1,842**	**$ 91**	$ 83	**$ 183**	$ 184
December 31, 2012								
Alternative investments	$	$	$ 2,062	$ 2,062				
Other assets		3	18	21				

Total	$	$ 3	$ 2,080	$ 2,083

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
June 30, 2013					
Assets:					
Mortgage and other loans receivable	**$**	**$ 522**	**$ 19,846**	**$ 20,368**	**$ 19,798**
Other invested assets		**63**	**3,583**	**3,646**	**4,862**
Short-term investments		**14,116**		**14,116**	**14,116**
Cash	**1,762**			**1,762**	**1,762**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts		**157**	**118,328**	**118,485**	**103,391**
Other liabilities		**5,319**	**752**	**6,071**	**6,074**
Long-term debt		**37,385**	**1,983**	**39,368**	**35,601**
December 31, 2012					
Assets:					
Mortgage and other loans receivable	$	$ 823	$ 19,396	$ 20,219	$ 19,348
Other invested assets		237	3,521	3,758	4,932
Short-term investments		20,752		20,752	20,752
Cash	1,151			1,151	1,151
Liabilities:					
Policyholder contract deposits associated with investment-type contracts		245	123,860	124,105	105,979
Other liabilities		3,981	818	4,799	4,800
Long-term debt		43,966	1,925	45,891	40,445

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

6. INVESTMENTS

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI(a)
June 30, 2013					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,346	$ 219	$ (35)	$ 3,530	$
Obligations of states, municipalities and political subdivisions	31,481	1,565	(318)	32,728	2
Non-U.S. governments	22,885	1,041	(297)	23,629	
Corporate debt	137,184	9,285	(2,512)	143,957	82
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,199	3,228	(445)	36,982	1,618
CMBS	10,437	591	(347)	10,681	43
CDO/ABS	9,162	702	(142)	9,722	81
Total mortgage-backed, asset-backed and collateralized	53,798	4,521	(934)	57,385	1,742
Total bonds available for sale[b]	248,694	16,631	(4,096)	261,229	1,826
Equity securities available for sale:					
Common stock	1,356	1,561	(24)	2,893	
Preferred stock	55	26		81	
Mutual funds	179	11	(11)	179	
Total equity securities available for sale	1,590	1,598	(35)	3,153	
Total	$ 250,284	$ 18,229	$ (4,131)	$ 264,382	$ 1,826
December 31, 2012					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,161	$ 323	$ (1)	$ 3,483	$
Obligations of states, municipalities and political subdivisions	33,042	2,685	(22)	35,705	2

Non-U.S. governments	25,449	1,395	(44)	26,800	
Corporate debt	135,728	15,848	(464)	151,112	115
Mortgage-backed, asset-backed and collateralized:					
RMBS	31,330	3,379	(317)	34,392	1,330
CMBS	9,449	770	(304)	9,915	(79)
CDO/ABS	7,990	806	(244)	8,552	82
Total mortgage-backed, asset-backed and collateralized	48,769	4,955	(865)	52,859	1,333
Total bonds available for sale[(b)]	246,149	25,206	(1,396)	269,959	1,450
Equity securities available for sale:					
Common stock	1,492	1,574	(37)	3,029	
Preferred stock	55	23		78	
Mutual funds	93	12		105	
Total equity securities available for sale	1,640	1,609	(37)	3,212	
Total	$ 247,789	$ 26,815	$ (1,433)	$ 273,171	$ 1,450

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

(b) At June 30, 2013 and December 31, 2012, bonds available for sale held by us that were below investment grade or not rated totaled $31.0 billion and $29.6 billion, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Securities Available for Sale in a Loss Position

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

	Less than 12 Months		12 Months or More		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
June 30, 2013						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 889	$ 33	$ 10	$ 2	$ 899	$ 35
Obligations of states, municipalities and political subdivisions	4,623	298	88	20	4,711	318
Non-U.S. governments	3,995	273	159	24	4,154	297
Corporate debt	34,380	2,274	2,247	238	36,627	2,512
RMBS	7,164	272	1,048	173	8,212	445
CMBS	2,517	209	1,106	138	3,623	347
CDO/ABS	1,691	35	1,038	107	2,729	142
Total bonds available for sale	55,259	3,394	5,696	702	60,955	4,096
Equity securities available for sale:						
Common stock	116	22	7	2	123	24
Preferred stock	5				5	
Mutual funds	132	11			132	11
Total equity securities available for sale	253	33	7	2	260	35
Total	$ 55,512	$ 3,427	$ 5,703	$ 704	$ 61,215	$ 4,131
December 31, 2012						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 153	$ 1	$	$	$ 153	$ 1
Obligations of states, municipalities and political subdivisions	692	11	114	11	806	22
Non-U.S. governments	1,555	19	442	25	1,997	44
Corporate debt	8,483	201	3,229	263	11,712	464
RMBS	597	28	1,661	289	2,258	317
CMBS	404	8	1,481	296	1,885	304
CDO/ABS	393	3	1,624	241	2,017	244

Total bonds available for sale	12,277	271	8,551	1,125	20,828	1,396
Equity securities available for sale:						
Common stock	247	36	18	1	265	37
Mutual funds	3				3	
Total equity securities available for sale	250	36	18	1	268	37
Total	$ 12,527	$ 307	$ 8,569	$ 1,126	$ 21,096	$ 1,433

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At June 30, 2013, we held 6,313 and 125 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 713 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months. We did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2013 because we neither intend to sell the securities nor do we believe that it is more likely than not that we will be required to sell these securities before recovery of their amortized cost basis. Furthermore, we expect to recover the entire amortized cost basis of these securities. In performing this evaluation, we considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, we performed fundamental credit analyses on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Securities Available for Sale

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

June 30, 2013 *(in millions)*	Total Fixed Maturity Securities Available for Sale Amortized Cost	Total Fixed Maturity Securities Available for Sale Fair Value	Fixed Maturity Securities in a Loss Position Available for Sale Amortized Cost	Fixed Maturity Securities in a Loss Position Available for Sale Fair Value
Due in one year or less	$ 10,378	$ 10,572	$ 526	$ 512
Due after one year through five years	51,826	54,692	7,290	7,112
Due after five years through ten years	70,605	73,791	18,414	17,515
Due after ten years	62,087	64,789	23,323	21,252
Mortgage-backed, asset-backed and collateralized	53,798	57,385	15,498	14,564
Total	$ 248,694	$ 261,229	$ 65,051	$ 60,955

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

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
(in millions)	Gross Realized Gains	Gross Realized Losses	**Gross Realized Gains**	**Gross Realized Losses**	Gross Realized Gains	Gross Realized Losses	**Gross Realized Gains**	**Gross Realized Losses**
Fixed maturity securities	**$ 1,329**	**$ 56**	$ 875	$ 23	**$ 1,700**	**$ 127**	$ 1,365	$ 39
Equity securities	**46**	**6**	14	1	**83**	**9**	465	4

Total	**$ 1,375**	**$ 62**	$ 889	$ 24	**$ 1,783**	**$ 136**	$ 1,830	$ 43

For the three- and six-month periods ended June 30, 2013, the aggregate fair value of available for sale securities sold was $12.2 billion and $19.2 billion, respectively, which resulted in net realized capital gains of $1.3 billion and $1.6 billion, respectively.

For the three- and six-month periods ended June 30, 2012, the aggregate fair value of available for sale securities sold was $10.6 billion and $21.5 billion, respectively, which resulted in net realized capital gains of $0.9 billion and $1.8 billion, respectively.

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Trading Securities

The following table presents the fair value of our trading securities:

	June 30, 2013		December 31, 2012	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed maturity securities:				
U.S. government and government sponsored entities	$ 6,061	25%	$ 6,794	27%
Obligations of states, territories and political subdivisions	181	1		
Non-U.S. governments	2		2	
Corporate debt	1,098	4	1,320	5
Mortgage-backed, asset-backed and collateralized:				
RMBS	2,186	9	1,727	7
CMBS	1,701	7	2,227	9
CDO/ABS and other collateralized(a)	12,553	51	12,506	50
Total mortgage-backed, asset-backed and collateralized	16,440	67	16,460	66
Other	7		8	
Total fixed maturity securities	23,789	97	24,584	98
Equity securities	758	3	662	2
Total(b)	$ 24,547	100%	$ 25,246	100%

(a) Includes $0.8 billion of U.S. Government agency backed ABS.

(b) Securities presented herein are measured at fair value based on our election of the fair value option.

Net Investment Income

The following table presents the components of Net investment income:

	Three Months Ended	Six Months Ended June 30,

(in millions)	June 30, 2013	2012	2013	2012
Fixed maturity securities, including short-term investments	**$ 2,919**	$ 3,180	**$ 5,964**	$ 6,284
Change in fair value of ML II				246
Change in fair value of ML III		1,306		2,558
Change in fair value of AIA securities including realized gain		(493)		1,302
Equity securities	**(12)**	21	**25**	32
Interest on mortgage and other loans	**290**	264	**570**	529
Alternative investments*	**738**	350	**1,604**	855
Real estate	**36**	32	**67**	58
Other investments	**28**	(22)	**81**	1
Total investment income	**3,999**	4,638	**8,311**	11,865
Investment expenses	**155**	157	**303**	279
Net investment income	**$ 3,844**	$ 4,481	**$ 8,008**	$ 11,586

* Includes hedge funds, private equity funds, affordable housing partnerships and other investment partnerships.

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Net Realized Capital Gains and Losses

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

(in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Sales of fixed maturity securities	**$ 1,273**	$ 852	**$ 1,573**	$ 1,326
Sales of equity securities	**40**	13	**74**	461
Other-than-temporary impairments:				
Severity	**(3)**	(10)	**(5)**	(14)
Change in intent		(2)	**(3)**	(22)
Foreign currency declines		(1)		(6)
Issuer-specific credit events	**(82)**	(202)	**(145)**	(788)
Adverse projected cash flows	**(1)**	(1)	**(7)**	(4)
Provision for loan losses	**(2)**	24	**(5)**	26
Foreign exchange transactions	**82**	185	**411**	(47)
Derivative instruments	**288**	(397)	**17**	(659)
Other	**(4)**	(62)	**(19)**	(125)
Net realized capital gains	**$ 1,591**	$ 399	**$ 1,891**	$ 148

Change in Unrealized Appreciation of Investments

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

(in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Increase (decrease) in unrealized appreciation of investments:				
Fixed maturities	**$ (10,123)**	$ 2,026	**$ (11,275)**	$ 5,013
Equity securities	**(16)**	(30)	**(9)**	(590)
Other investments	**55**	84	**7**	368

Total Increase (decrease) in unrealized appreciation of investments	**$ (10,084)**	$ 2,080	**$ (11,277)**	$ 4,791

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of our policy for evaluating investments for other-than-temporary impairments, see Note 7 to the Consolidated Financial Statements in the 2012 Annual Report.

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Credit Impairments

The following table presents a rollforward of the cumulative credit loss component of other-than-temporary impairments recognized in earnings for our available for sale fixed maturity securities, and includes structured, corporate, municipal and sovereign fixed maturity securities:

(in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Balance, beginning of period	**$ 4,603**	$ 6,464	**$ 5,164**	$ 6,504
Increases due to:				
Credit impairments on new securities subject to impairment losses	**10**	35	**27**	172
Additional credit impairments on previously impaired securities	**12**	69	**30**	376
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(167)**	(248)	**(558)**	(518)
Accretion on securities previously impaired due to credit*	**(222)**	(231)	**(427)**	(453)
Other		1		9
Balance, end of period	**$ 4,236**	$ 6,090	**$ 4,236**	$ 6,090

* Represents both accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities and the accretion due to the passage of time.

Purchased Credit Impaired (PCI) Securities

Since 2011, we have purchased certain RMBS securities that have experienced deterioration in credit quality since their issuance. We determined, based on our expectations as to the timing and amount of cash flows expected to be received, that it was probable at the date of acquisition that we would not collect all contractually required payments for these PCI securities, including both principal and interest after considering the effects of prepayments. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security was determined based on our best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. The accretable yield and the non-accretable difference will change over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, which are discussed further below.

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

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

(in millions)		At Date of Acquisition
Contractually required payments (principal and interest)	$	23,138
Cash flows expected to be collected*		18,213
Recorded investment in acquired securities		11,920

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

(in millions)		June 30, 2013		December 31, 2012
Outstanding principal balance	$	**14,266**	$	11,791
Amortized cost		**9,676**		7,718
Fair value		**10,801**		8,823

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		2013		2012		2013		2012
Balance, beginning of period	$	**5,114**	$	5,146	$	**4,766**	$	4,135
Newly purchased PCI securities		**761**		196		**1,106**		1,418
Disposals				(121)		**(60)**		(168)
Accretion		**(170)**		(177)		**(330)**		(345)
Effect of changes in interest rate indices		**22**		(133)		**106**		(161)
Net reclassification from non-accretable difference, including effects of prepayments		**174**		39		**313**		71
Balance, end of period	$	**5,901**	$	4,950	$	**5,901**	$	4,950

Pledged Investments

Secured Financing and Similar Arrangements

We enter into financing transactions whereby certain securities are transferred to financial institutions in exchange for cash or other liquid collateral. Securities transferred by us under these financing transactions may be sold or repledged by the counterparties. As collateral for the securities transferred by us, counterparties transfer assets to us, such as cash or high quality fixed maturity securities. Collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the transferred securities during the life of the transactions. Where we receive fixed maturity securities as collateral, we do not have the right to sell or repledge the collateral unless an event of default occurs by the counterparties. At the termination of the transactions, we and our counterparties are obligated to return the collateral provided and the securities transferred, respectively. We treat these transactions as secured financing arrangements.

Secured financing transactions also include securities sold under agreements to repurchase (repurchase agreements), in which we transfer securities in exchange for cash, with an agreement by us to repurchase the same or substantially similar securities. In the majority of these repurchase agreements, the securities transferred by us may be sold or repledged by the counterparties. Repurchase agreements entered into by our Direct Investment book (DIB) are carried at fair value based on market-observable interest rates. All other repurchase agreements are recorded at their contracted repurchase amounts plus accrued interest.

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The following table presents the fair value of securities pledged to counterparties under secured financing transactions:

(in millions)	June 30, 2013	December 31, 2012
Securities available for sale	**$ 4,291**	$ 8,180
Trading securities	**2,804**	2,985

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

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

(in millions)	June 30, 2013	December 31, 2012
Securities collateral pledged to us	**$ 8,548**	$ 11,039
Amount repledged by us	**7**	33

Insurance Statutory and Other Deposits

Total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance treaties, were $6.9 billion and $8.9 billion at June 30, 2013 and December 31, 2012, respectively.

Other Pledges

Certain of our subsidiaries are members of Federal Home Loan Banks (FHLBs) and such membership requires the members to own stock in these FHLBs. We owned an aggregate of $64 million and $84 million of stock in FHLBs at June 30, 2013 and December 31, 2012, respectively. To the extent we borrow from the FHLB, our ownership interest in the stock of FHLBs will be pledged to the FHLB. In addition, we have pledged securities available for sale with a fair value of $75 million and $341 million at June 30, 2013 and December 31, 2012, respectively, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations approximated $4.3 billion and $4.4 billion at June 30, 2013 and December 31, 2012, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

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ITEM 1 / NOTE 7. LENDING ACTIVITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

7. LENDING ACTIVITIES

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

(in millions)	June 30, 2013	December 31, 2012
Commercial mortgages*	$ 14,673	$ 13,788
Life insurance policy loans	2,865	2,952
Commercial loans, other loans and notes receivable	2,700	3,147
Total mortgage and other loans receivable	20,238	19,887
Allowance for losses	(381)	(405)
Mortgage and other loans receivable, net	$ 19,857	$ 19,482

* Commercial mortgages primarily represent loans for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (aggregating approximately 20 percent and 17 percent at June 30, 2013, respectively, and approximately 22 percent and 15 percent at December 31, 2012, respectively). Approximately 99 percent of the commercial mortgages held at such respective dates were current as to payments of principal and interest.

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

June 30, 2013 *(dollars in millions)*	Number of Loans	Class: Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total $
Credit Quality Indicator:									
In good standing	993	$ 2,264	$ 4,642	$ 2,873	$ 1,689	$ 1,223	$ 1,659	$ 14,350	98%
Restructured[(a)]	6	49	188	7			22	266	2
90 days or less delinquent	3								
>90 days delinquent or in process of foreclosure	8		31	26				57	
Total[(b)]	1,010	$ 2,313	$ 4,861	$ 2,906	$ 1,689	$ 1,223	$ 1,681	$ 14,673	100%
Valuation allowance		$ 3	$ 81	$ 24	$ 20	$ 1	$ 41	$ 170	1%

(a) Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. For additional discussion of troubled debt restructurings see Note 8 to the Consolidated Financial Statements in the 2012 Annual Report.

(b) Does not reflect valuation allowances.

Allowance for Credit Losses

See Note 8 to the Consolidated Financial Statements in the 2012 Annual Report for a discussion of our accounting policy for evaluating mortgage and other loans receivable for impairment.

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

Six Months Ended June 30, *(in millions)*	2013 Commercial Mortgages	2013 Other Loans	2013 Total	2012 Commercial Mortgages	2012 Other Loans	2012 Total
Allowance, beginning of year	$ 159	$ 246	$ 405	$ 305	$ 435	$ 740
Loans charged off		(26)	(26)	(5)	(5)	(10)
Recoveries of loans previously charged off	3	2	5	4		4
Net charge-offs	3	(24)	(21)	(1)	(5)	(6)
Provision for loan losses	8	(6)	2	(42)	20	(22)
Other		(5)	(5)		(4)	(4)
Activity of discontinued operations					(24)	(24)
Allowance, end of period	$ 170*	$ 211	$ 381	$ 262*	$ 422	$ 684

* Of the total allowance at the end of the period, $58 million and $70 million relates to individually assessed credit losses on $131 million and $382 million of commercial mortgage loans at June 30, 2013 and 2012, respectively.

No significant loans were modified in a troubled debt restructuring during the six-month periods ended June 30, 2013 and 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

8. VARIABLE INTEREST ENTITIES

We enter into various arrangements with variable interest entities (VIEs) in the normal course of business. Our involvement with VIEs is primarily through our insurance companies as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs. Our exposure is generally limited to those interests held.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other VIEs, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

Exposure to Loss

AIG's total off-balance sheet exposure associated with VIEs, primarily consisting of commitments to real estate and investment funds, was $0.2 billion at both June 30, 2013 and December 31, 2012.

The following table presents the total assets and total liabilities associated with our variable interests in consolidated VIEs:

	VIE Assets(a)		VIE Liabilities	
(in billions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
ALICO SPV[b]	$	$ 0.6	$ **0.1**	$ 0.1
Real estate and investment funds[c]	**1.0**	1.4	**0.1**	0.2
Securitization vehicles	**4.9**	2.4	**0.1**	
Structured investment vehicles	**1.5**	1.7	**0.1**	0.1
Affordable housing partnerships	**2.2**	2.3	**0.3**	0.2
Other	**3.2**	3.3	**0.8**	1.3
Total	$ **12.8**	$ 11.7	$ **1.5**	$ 1.9

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

(b) On May 1, 2013, escrowed funds totaling $547 million were released in accordance with the ALICO stock purchase agreement. See Note 10 for additional information.

(c) At June 30, 2013 and December 31, 2012, off-balance sheet exposure with respect to real estate and investment funds was $50.9 million and $48.7 million, respectively.

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

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ITEM 1 / NOTE 8. VARIABLE INTEREST ENTITIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents total assets of unconsolidated VIEs in which we hold a variable interest, as well as our maximum exposure to loss associated with these VIEs:

		Maximum Exposure to Loss		
(in billions)	Total VIE Assets	On-Balance Sheet	Off-Balance Sheet	Total
June 30, 2013				
Real estate and investment funds	**$ 17.7**	**$ 2.2**	**$ 0.2**	**$ 2.4**
Affordable housing partnerships	**0.5**	**0.5**		**0.5**
Other	**1.1**	**0.1**		**0.1**
Total	**$ 19.3**	**$ 2.8**	**$ 0.2**	**$ 3.0**
December 31, 2012				
Real estate and investment funds	$ 16.7	$ 1.8	$ 0.2	$ 2.0
Affordable housing partnerships	0.5	0.5		0.5
Other	1.0	0.1		0.1
Total	$ 18.2	$ 2.4	$ 0.2	$ 2.6

Balance Sheet Classification

AIG's interests in the assets and liabilities of consolidated and unconsolidated VIEs were classified in the Condensed Consolidated Balance Sheets as follows:

	Consolidated VIEs		Unconsolidated VIEs	
(in billions)	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Assets:				
Available for sale securities	**$ 5.3**	$ 2.9	**$**	$
Trading securities	**0.9**	1.0	**0.1**	0.1
Mortgage and other loans receivable	**0.3**	0.4		
Other invested assets	**4.0**	4.4	**2.7**	2.3
Other assets	**2.3**	3.0		
Total assets	**$ 12.8**	$ 11.7	**$ 2.8**	$ 2.4
Liabilities:				

Long-term debt	$ **0.7**	$ 0.7	**$**	$
Other liabilities	**0.8**	1.2		
Total liabilities	$ **1.5**	$ 1.9	**$**	$

See Note 11 to the Consolidated Financial Statements in the 2012 Annual Report for additional information on VIEs.

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

9. DERIVATIVES AND HEDGE ACCOUNTING

We use derivatives and other financial instruments as part of our financial risk management programs and as part of our investment operations. See Note 12 to the Consolidated Financial Statements in the 2012 Annual Report for a discussion of our accounting policies and procedures regarding derivatives and hedge accounting.

The following table presents the notional amounts and fair values of AIG's derivative instruments:

	June 30, 2013				December 31, 2012			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount	Fair Value(a)	Notional Amount	Fair Value(a)	**Notional Amount**	**Fair Value(a)**	**Notional Amount**	**Fair Value(a)**
Derivatives designated as hedging instruments:								
Foreign exchange contracts	$ **226**	$ **2**	$ **971**	$ **57**	$	$	$	$
Derivatives not designated as hedging instruments:								
Interest rate contracts[b]	**56,436**	**5,078**	**61,714**	**4,596**	63,463	6,479	63,482	5,806
Foreign exchange contracts	**4,259**	**115**	**2,279**	**98**	8,325	104	10,168	174
Equity contracts[c]	**5,606**	**265**	**28,294**	**708**	4,990	221	25,626	1,377
Commodity contracts	**615**	**124**	**610**	**127**	625	145	622	146
Credit contracts	**70**	**56**	**15,526**	**1,650**	70	60	16,244	2,051
Other contracts[d]	**22,256**	**37**	**1,317**	**167**	20,449	38	1,488	206
Total derivatives not designated as hedging instruments	**89,242**	**5,675**	**109,740**	**7,346**	97,922	7,047	117,630	9,760
Total derivatives, gross	$ **89,468**	$ **5,677**	$ **110,711**	$ **7,403**	$ 97,922	$ 7,047	$ 117,630	$ 9,760

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

(b) Includes cross-currency swaps.

(c) Notional amount of derivative liabilities and fair value of derivative liabilities include $25.9 billion and $.6 billion, respectively, at June 30, 2013, and $23 billion and $1.3 billion, respectively, at December 31, 2012, related to bifurcated embedded derivatives. A bifurcated embedded derivative is generally presented with the host contract in the Condensed Consolidated Balance Sheets.

(d) Consists primarily of contracts with multiple underlying exposures.

The following table presents the fair values of derivative assets and liabilities in the Condensed Consolidated Balance Sheets:

	June 30, 2013				December 31, 2012			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
Global Capital Markets derivatives:								
AIG Financial Products	$ 54,970	$ 3,982	$ 60,806	$ 4,204	$ 59,854	$ 4,725	$ 66,717	$ 5,506
AIG Markets	8,051	853	15,642	1,576	14,028	1,308	18,774	1,818
Total Global Capital Markets derivatives	63,021	4,835	76,448	5,780	73,882	6,033	85,491	7,324
Non-Global Capital Markets derivatives[a]	26,447	842	34,263	1,623	24,040	1,014	32,139	2,436
Total derivatives, gross	$ 89,468	5,677	$ 110,711	7,403	$ 97,922	7,047	$ 117,630	9,760
Counterparty netting[b]		(2,011)		(2,011)		(2,467)		(2,467)
Cash collateral[c]		(861)		(1,612)		(909)		(1,976)
Total derivatives, net		2,805		3,780		3,671		5,317
Less: Bifurcated embedded derivatives				656				1,256
Total derivatives on consolidated balance sheet		$ 2,805		$ 3,124		$ 3,671		$ 4,061

(a) Represents derivatives used to hedge the foreign currency and interest rate risk associated with insurance operations as well as embedded derivatives included in insurance contracts. Liabilities include bifurcated embedded derivatives, which are recorded in Policyholder contract deposits in the Condensed Consolidated Balance Sheets.

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

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

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Collateral

We engage in derivative transactions directly with unaffiliated third parties, which generally provide for collateral postings to such unaffiliated third parties or (in the case of derivative transactions subject to clearing) centralized clearing organizations at various ratings and threshold levels. The collateral posting provisions are generally contained in Credit Support Annexes (CSAs) included in International Swaps and Derivatives Association, Inc. (ISDA) agreements or (in the case of derivative transactions subject to clearing) clearing agreements with futures commission merchants.

Collateral posted by us to third parties for derivative transactions was $3.5 billion and $4.5 billion at June 30, 2013 and December 31, 2012, respectively. In the case of collateral posted under derivative transactions that are not subject to clearing, this collateral can generally be repledged or resold by the counterparties. Collateral provided to us from third parties for derivative transactions was $1.1 billion and $1.4 billion at June 30, 2013 and December 31, 2012, respectively. We generally can repledge or resell this collateral to the extent it is posted under derivative transactions that are not subject to clearing.

Offsetting

We have elected to present all derivative receivables and derivative payables, and the related cash collateral received and paid, on a net basis on our Condensed Consolidated Balance Sheets when a legally enforceable master netting agreement exists between us and our derivative counterparty. A master netting agreement is an agreement between two counterparties who have multiple derivative contracts with each other that provides for the net settlement of all contracts, as well as cash collateral, through a single payment, in a single currency, in the event of default on or upon termination of any one contract.

Hedge Accounting

We designated certain derivatives entered into by Global Capital Markets (GCM) with third parties as fair value hedges of available-for-sale investment securities held by our insurance subsidiaries. The fair value hedges include foreign currency forwards designated as hedges of the change in fair value of foreign currency denominated available-for-sale securities attributable to changes in foreign exchange rates.

We use foreign currency denominated debt and cross-currency swaps as hedging instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with our non-U.S. dollar functional currency foreign subsidiaries. We assess the hedge effectiveness and measure the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. For the three- and six-month periods ended June 30, 2013, we recognized gains (losses) of $(35) million and $95 million, respectively, and for the three- and six-month periods ended June 30, 2012, we recognized gains of $147 million and $56 million, respectively, included in Foreign currency translation adjustment in Accumulated other comprehensive income related to the net investment hedge relationships.

A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.

ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the gain (loss) recognized in earnings on our derivative instruments in fair value hedging relationships in the Condensed Consolidated Statements of Income:

(in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest rate contracts:[a]				
Loss recognized in earnings on derivatives	**$**	$	**$**	$ (2)
Hedged items[b]	**23**	48	**53**	80
Foreign exchange contracts:[a]				
Derivatives	**(35)**		**(40)**	
Hedged items	**43**		**47**	
Amount excluded from effectiveness testing	**8**		**7**	

(a) Gains and losses recognized in earnings for the ineffective portion and amounts excluded from effectiveness testing, if any, are recorded in Net realized capital gains.

(b) Represents the amortization of debt basis adjustment recorded in Other income and Net realized capital gains (losses) following the discontinuation of hedge accounting.

Derivatives Not Designated as Hedging Instruments

The following table presents the effect of AIG's derivative instruments not designated as hedging instruments in the Condensed Consolidated Statements of Income:

(in millions)	Gains (Losses) Recognized in Earnings Three Months Ended June 30, 2013	2012	Gains (Losses) Recognized in Earnings Six Months Ended June 30, 2013	2012
By Derivative Type:				
Interest rate contracts[a]	**$ (69)**	$ 598	**$ (285)**	$ 12
Foreign exchange contracts	**(8)**	21	**147**	90
Equity contracts[b]	**468**	(207)	**512**	(395)

Commodity contracts		**(2)**		(1)		**(2)**		(2)
Credit contracts		**138**		63		**313**		214
Other contracts		**16**		(81)		**60**		(52)
Total	**$**	**543**	$	393	**$**	**745**	$	(133)
By Classification:								
Policy fees	**$**	**48**	$	37	**$**	**93**	$	73
Net investment income		**5**				**29**		1
Net realized capital gains (losses)		**276**		(423)				(660)
Other income		**219**		779		**631**		453
Policyholder benefits and claims incurred		**(5)**				**(8)**		
Total	**$**	**543**	$	393	**$**	**745**	$	(133)

(a) Includes cross currency swaps.

(b) Includes embedded derivative gains of $505 million and $760 million for the three- and six-month periods ended June 30, 2013, respectively, and embedded derivative losses of $368 million and $193 million for the three- and six-month periods ended June 30, 2012, respectively.

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Global Capital Markets Derivatives

GCM enters into derivatives to mitigate market risk in its exposures (interest rates, currencies, commodities, credit and equities) arising from its transactions. At June 30, 2013, GCM has entered into credit derivative transactions with respect to $66 million of securities to economically hedge its credit risk. In most cases, GCM has not hedged its exposures related to the credit default swaps it has written.

GCM follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, thereby offsetting a significant portion of the unrealized appreciation and depreciation.

Super Senior Credit Default Swaps

Credit default swap transactions were entered into with the intention of earning revenue on credit exposure. In the majority of these transactions, we sold credit protection on a designated portfolio of loans or debt securities. Generally, we provided such credit protection on a "second loss" basis, meaning we would incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeded a specified threshold amount or level of "first losses."

The following table presents the net notional amount, fair value of derivative (asset) liability and unrealized market valuation gain (loss) of the super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions, by asset class:

	Net Notional Amount at(a)		Fair Value of Derivative Liability at(b)		Unrealized Market Valuation Gain(c)			
					Three Months Ended June 30,		Six Months Ended June 30,	
	June 30,	December 31,	June 30,	December 31,				
(in millions)	2013	2012	2013	2012	2013	2012	2013	2012
Regulatory Capital:								
Prime residential mortgages	$ **11**	$ 97	$	$	$	$	$	$
Other						(3)		3
Total	**11**	97				(3)		3
Arbitrage:								
Multi-sector CDOs[(d)]	**3,575**	3,944	**1,547**	1,910	**126**	68	**281**	194
Corporate debt/CLOs[(e)]	**11,590**	11,832	**39**	60	**5**	(6)	**21**	11

Total		**15,165**		15,776		**1,586**		1,970		**131**		62		**302**		205
Mezzanine tranches												(2)				(11)
Total	**$**	**15,176**	$	15,873	**$**	**1,586**	$	1,970	**$**	**131**	$	57	**$**	**302**	$	197

(a) Net notional amounts presented are net of all structural subordination below the covered tranches. The decrease in the total net notional amount from December 31, 2012 to June 30, 2013 was primarily due to amortization of $523 million, foreign exchange rate movement of $110 million and a combination of terminations and maturities of $64 million.

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

(c) Includes credit valuation adjustment gains of $1 million and $2 million for the three-month periods ended June 30, 2013 and 2012, respectively, and losses of $1 million and $24 million for the six-month periods ended June 30, 2013 and 2012, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(d) During the six-month period ended June 30, 2013, we paid $82 million to counterparties with respect to multi-sector CDOs. Upon payment, a $82 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include $3.1 billion and $3.4 billion in net notional amount of credit default swaps written with cash settlement provisions at June 30, 2013 and December 31, 2012, respectively. Collateral postings with regards to multi-sector CDOs were $1.3 billion and $1.6 billion at June 30, 2013 and December 31, 2012, respectively.

(e) Corporate debt/Collateralized Loan Obligations (CLOs) include $1.0 billion and $1.2 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at June 30, 2013 and December 31, 2012, respectively. Collateral postings with regards to corporate debt/CLOs were $383 million and $420 million at June 30, 2013 and December 31, 2012, respectively.

The expected weighted average maturity of the super senior credit derivative portfolios as of June 30, 2013 was less than one year for the regulatory capital prime residential mortgage portfolio, 6 years for the multi-sector CDO arbitrage portfolio and 3 years for the corporate debt/CLO portfolio.

Given the current performance of the underlying portfolios, the level of subordination of the credit protection written and the assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, we do not expect that we will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief.

Because of long-term maturities of the CDS in the arbitrage portfolio, we are unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the super senior credit default swap portfolio.

Written Single Name Credit Default Swaps

We have also entered into credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long-short strategy to earn the net spread between CDS written and purchased. At June 30, 2013, the net notional amount of these written CDS contracts was $389 million, including ABS CDS transactions purchased from a liquidated multi-sector super senior CDS transaction. These exposures have been partially hedged by purchasing offsetting CDS contracts of $50 million in net notional amount. The net unhedged position of $339 million represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 4 years. At June 30, 2013, the fair value of the derivative liability (which represents the carrying value) of the portfolio of CDS was $36 million.

Upon a triggering event (e.g., a default) with respect to the underlying credit, we would have the option to either settle the position through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit obligor (physical settlement).

These CDS contracts were written under ISDA Master Agreements. The majority of these ISDA Master Agreements include CSAs that provide for collateral postings at various ratings and threshold levels. At June 30, 2013, collateral posted by us under these contracts was $57 million prior to offsets for other transactions.

All Other Derivatives

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

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In addition to hedging activities, we also enter into derivative instruments with respect to investment operations, which include, among other things, credit default swaps and purchasing investments with embedded derivatives, such as equity-linked notes and convertible bonds.

Credit Risk-Related Contingent Features

The aggregate fair value of our derivative instruments that contain credit risk-related contingent features that were in a net liability position at June 30, 2013, was approximately $3 billion. The aggregate fair value of assets posted as collateral under these contracts at June 30, 2013, was $3.4 billion.

We estimate that at June 30, 2013, based on our outstanding financial derivative transactions, a one-notch downgrade of our long-term senior debt ratings to BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit certain counterparties to elect early termination of contracts, resulting in a negligible amount of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's Investors' Service, Inc. (Moody's) and an additional one-notch downgrade to BBB by S&P would result in approximately $78 million in additional collateral postings and termination payments, and a further one-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately $121 million in additional collateral postings and termination payments.

Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of June 30, 2013. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Our estimates are also based on the assumption that counterparties will terminate based on their net exposure to us. The actual termination payments could significantly differ from our estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

Hybrid Securities with Embedded Credit Derivatives

We invest in hybrid securities (such as credit-linked notes) with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. As is the case with our other investments in RMBS, CMBS, CDOs and ABS, our investments in these hybrid securities are exposed to losses only up to the amount of our initial investment in the hybrid security. Other than our initial investment in the hybrid securities, we have no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

We elect to account for our investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. Our investments in these hybrid securities are reported as Bond trading securities in the Condensed Consolidated Balance Sheets. The fair value of these hybrid securities was $6.6 billion at June 30, 2013. These securities have a current par amount of $14.1 billion and have remaining stated maturity dates that extend to 2052.

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In the normal course of business, various contingent liabilities and commitments are entered into by AIG and our subsidiaries. In addition, AIG Parent guarantees various obligations of certain subsidiaries.

Although we cannot currently quantify our ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on our consolidated financial condition or our consolidated results of operations or consolidated cash flows for an individual reporting period.

Legal Contingencies

Overview. In the normal course of business, AIG and our subsidiaries are, like others in the insurance and financial services industries in general, subject to litigation, including claims for punitive damages. In our insurance and mortgage guaranty operations, litigation arising from claims settlement activities is generally considered in the establishment of our liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of insurance laws and regulations, as well as federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain public disclosures, transactions and practices of AIG and our subsidiaries in connection with industry-wide and other inquiries into, among other matters, our liquidity, compensation paid to certain employees, payments made to counterparties, and certain business practices and valuations of current and former operating insurance subsidiaries. We have cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

AIG's Subprime Exposure, AIGFP Credit Default Swap Portfolio and Related Matters

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to our exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to our securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. Between May 21, 2008 and January 15, 2009, eight purported securities class action complaints were filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York), alleging claims under the Securities Exchange Act of 1934, as amended (the Exchange Act), or claims under the Securities Act of 1933, as amended (the Securities Act). On March 20, 2009, the Court consolidated all eight of the purported securities class actions as In re American International Group, Inc. 2008 Securities Litigation (the Consolidated 2008 Securities Litigation).

On May 19, 2009, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG Common Stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG

Common Stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants

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filed motions to dismiss the consolidated complaint, and on September 27, 2010, the Court denied the motions to dismiss.

On April 1, 2011, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a motion to certify a class of plaintiffs. On November 2, 2011, the Court terminated the motion without prejudice to an application for restoration. On March 30, 2012, the lead plaintiff filed a renewed motion to certify a class of plaintiffs.

On April 26, 2013, the Court granted a motion for judgment on the pleadings brought by the defendants. The Court's order dismissed all claims against the outside auditors in their entirety, and it also reduced the scope of the Securities Act claims against AIG and defendants other than the outside auditors. We have accrued our estimate of probable loss with respect to this litigation.

On November 18, 2011, January 20, 2012, June 11, 2012, August 8, 2012 and May 17, 2013, five separate, though similar, securities actions were brought by the Kuwait Investment Authority, various Oppenheimer Funds, eight foreign funds and investment entities led by the British Coal Staff Superannuation Scheme, Pacific Life Funds and Pacific Select Fund and the Teachers Retirement System of the State of Illinois against AIG and certain directors and officers of AIG and AIGFP (the action by the British Coal Staff Superannuation Scheme also names as defendants AIG's outside auditors and the underwriters of various securities offerings). The parties have agreed to stay discovery in these actions until the earlier of (i) the Court deciding the motion for class certification pending in the Consolidated 2008 Securities Litigation following 30 days' notice from any party in their respective action, (ii) the preliminary approval of any settlement in the Consolidated 2008 Securities Litigation, (iii) December 27, 2013, or (iv) such earlier or other date as the Court may order.

As of August 5, 2013, no discussions concerning potential damages have occurred and the plaintiffs have not formally specified an amount of alleged damages in their respective actions. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from these litigations.

ERISA Actions Southern District of New York. Between June 25, 2008, and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. The Court subsequently consolidated these eight actions as In re American International Group, Inc. ERISA Litigation II. On September 4, 2012, lead plaintiffs' counsel filed a second consolidated amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG Common Stock. In the consolidated amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues.

On November 20, 2012, defendants filed motions to dismiss the consolidated amended complaint. On May 24, 2013, the parties informed the Court of a mediation scheduled for August 21-22, 2013, and requested that the Court defer consideration of defendants' motions pending the outcome of the mediation. On the same day, the Court granted the parties' request, terminating defendants' motions without prejudice to reinstatement on request following the August mediation, if necessary.

As of August 5, 2013, plaintiffs have not formally specified an amount of alleged damages, discovery is ongoing, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Canadian Securities Class Action Ontario Superior Court of Justice. On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. If the Court grants the application, a class plaintiff will be permitted to file a

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statement of claim against defendants. The proposed statement of claim would assert a class period of March 16, 2006 through September 16, 2008 and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act.

On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in a pair of actions captioned Club Resorts Ltd. v. Van Breda 2012 SCC 17 (Van Breda). On April 18, 2012, the Supreme Court of Canada clarified the standard for determining jurisdiction over foreign and out-of-province defendants, such as AIG, by holding that a defendant must have some form of "actual," as opposed to a merely "virtual," presence in order to be deemed to be "doing business" in the jurisdiction. The Supreme Court of Canada also suggested that in future cases, defendants may contest jurisdiction even when they are found to be doing business in a Canadian jurisdiction if their business activities in the jurisdiction are unrelated to the subject matter of the litigation. The matter has been stayed pending further developments in the Consolidated 2008 Securities Litigation.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of $500 million and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of August 5, 2013 the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim, no merits discovery has occurred and the action has been stayed. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Starr International Litigation

On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the United States in the United States Court of Federal Claims (the Court of Federal Claims), bringing claims, both individually and on behalf of the classes defined below and derivatively on behalf of AIG (the SICO Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into a credit facility with the Federal Reserve Bank of New York (the FRBNY and such credit facility, the FRBNY Credit Facility) and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

On November 21, 2011, SICO also filed a second complaint in the Southern District of New York against the FRBNY bringing claims, both individually and on behalf of all others similarly situated and derivatively on behalf of AIG (the SICO New York Action). This complaint also challenges the government's assistance of AIG, pursuant to which AIG entered into the FRBNY Credit Facility and the United States received an approximately 80 percent ownership in AIG. The complaint alleges that the FRBNY owed fiduciary duties to AIG as our controlling shareholder, and that the FRBNY breached these fiduciary duties by "divert[ing] the rights and assets of AIG and its shareholders to itself and favored third parties" through transactions involving Maiden Lane III LLC (ML III), an entity controlled by the FRBNY, and by "participating in, and causing AIG's officers and directors to participate in, the evasion of AIG's existing Common Stock shareholders' right to approve the massive issuance of the new Common Shares required to complete the government's taking of a nearly 80 percent interest in the Common Stock of AIG." SICO also alleges that the "FRBNY has asserted that in exercising its control over, and acting on behalf of, AIG it did not act in an official, governmental capacity or at the direction of the United States," but that "[t]o the extent the proof at or prior to trial shows that the FRBNY did in fact act in a governmental capacity, or at the direction of the United States, the improper conduct . . . constitutes the discriminatory takings of the property and property rights of AIG without due process or just compensation."

On January 31, 2012 and February 1, 2012, amended complaints were filed in the Court of Federal Claims and the Southern District of New York, respectively.

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In rulings dated July 2, 2012, and September 17, 2012, the Court of Federal Claims largely denied the United States' motion to dismiss in the SICO Treasury Action. Discovery is proceeding.

On November 19, 2012, the Southern District of New York granted the FRBNY's motion to dismiss the SICO New York Action. On December 21, 2012, SICO filed a notice of appeal in the United States Court of Appeals for the Second Circuit, which appeal is still pending.

In both of the actions commenced by SICO, the only claims naming AIG as a party (as a nominal defendant) are derivative claims on behalf of AIG. On September 21, 2012, SICO made a pre-litigation demand on our Board demanding that we pursue the derivative claims in both actions or allow SICO to pursue the claims on our behalf. On January 9, 2013, our Board unanimously refused SICO's demand in its entirety and on January 23, 2013, counsel for the Board sent a letter to counsel for SICO describing the process by which our Board considered and refused SICO's demand and stating the reasons for our Board's determination.

On March 11, 2013, SICO filed a second amended complaint in the SICO Treasury Action alleging that its demand was wrongfully refused. On June 26, 2013, the Court of Federal Claims granted motions by AIG and the United States to dismiss SICO's derivative claims in the SICO Treasury Action.

On March 11, 2013, the Court of Federal Claims in the SICO Treasury Action granted SICO's motion for class certification of two classes with respect to SICO's non-derivative claims: (1) persons and entities who held shares of AIG Common Stock on or before September 16, 2008 and who owned those shares on September 22, 2008; and (2) persons and entities who owned shares of AIG Common Stock on June 30, 2009 and were eligible to vote those shares at AIG's June 30, 2009 annual meeting of shareholders. SICO has provided notice of class certification to potential members of the class, who, pursuant to a court order issued on April 25, 2013, must "opt in" to the class if they wish to join the class by September 16, 2013.

The United States has alleged, as an affirmative defense in its answer, that AIG is obligated to indemnify the FRBNY and its representatives, including the Federal Reserve Board of Governors and the United States (as the FRBNY's principal), for any recovery in the SICO Treasury Action, and seeks a contingent offset or recoupment for the value of net operating loss benefits the United States alleges that we received as a result of the government's assistance. The FRBNY has also requested indemnification in connection with the SICO New York Action from AIG under the FRBNY Credit Facility and from ML III under the Master Investment and Credit Agreement and the Amended and Restated Limited Liability Company Agreement of ML III.

Other Litigation Related to AIGFP

On September 30, 2009, Brookfield Asset Management, Inc. and Brysons International, Ltd. (together, Brookfield) filed a complaint against AIG and AIGFP in the Southern District of New York. Brookfield seeks a declaration that a 1990 interest rate swap agreement between Brookfield and AIGFP (guaranteed by AIG) terminated upon the occurrence of certain alleged events that Brookfield contends constituted defaults under the swap agreement's standard "bankruptcy" default provision. Brookfield claims that it is excused from all future payment obligations under the swap agreement on the basis of the purported termination. At June 30, 2013, the estimated present value of expected future cash flows discounted at LIBOR was $1.5 billion, which represents our maximum contractual loss from the alleged termination of the contract. It is our position that no termination event has occurred and that the swap agreement remains in effect. A determination that a termination event has occurred could result in a loss of our entitlement to all future payments under the swap agreement and result in a loss to us of the full value at which we are carrying the swap agreement.

Additionally, a determination that AIG triggered a "bankruptcy" event of default under the swap agreement could also, depending on the Court's precise holding, affect other AIG or AIGFP agreements that contain the same or similar default provisions. Such a determination could also affect derivative agreements or other contracts between third parties, such as credit default swaps under which AIG is a reference credit, which could affect the trading price of AIG securities. During the third quarter of 2011, beneficiaries of certain previously repaid AIGFP guaranteed investment agreements brought an action against AIG Parent and AIGFP making "bankruptcy" event of default

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allegations similar to those made by Brookfield. The Court subsequently issued a decision dismissing that action, which decision was affirmed on appeal by the Delaware Supreme Court on April 29, 2013.

Employment Litigation against AIG and AIG Global Real Estate Investment Corporation

On December 9, 2009, AIG Global Real Estate Investment Corporation's (AIGGRE) former President, Kevin P. Fitzpatrick, several entities he controls, and various other single purpose entities (the SPEs) filed a complaint in the Supreme Court of the State of New York, New York County against AIG and AIGGRE (the Defendants). The case was removed to the Southern District of New York, and an amended complaint was filed on March 8, 2010. The amended complaint asserts that the Defendants violated fiduciary duties to Fitzpatrick and his controlled entities and breached Fitzpatrick's employment agreement and agreements of SPEs that purportedly entitled him to carried interest arising out of the sale or disposition of certain real estate. Fitzpatrick has also brought derivative claims on behalf of the SPEs, purporting to allege that the Defendants breached contractual and fiduciary duties in failing to fund the SPEs with various amounts allegedly due under the SPE agreements. Fitzpatrick has also requested injunctive relief, an accounting, and that a receiver be appointed to manage the affairs of the SPEs. He has further alleged that the SPEs are subject to a constructive trust. Fitzpatrick also has alleged a violation of ERISA relating to retirement benefits purportedly due. Fitzpatrick has claimed that he is currently owed damages totaling approximately $196 million, and that potential future amounts owed to him are approximately $78 million, for a total of approximately $274 million. Fitzpatrick further claims unspecified amounts of carried interest on certain additional real estate assets of AIG and its affiliates. He also seeks punitive damages for the alleged breaches of fiduciary duties. Defendants assert that Fitzpatrick has been paid all amounts currently due and owing pursuant to the various agreements through which he seeks recovery. On February 26, 2013, the Court granted in part and denied in part the parties' cross-motions for partial summary judgment, reserving most issues for trial but finding that summary judgment was appropriate as to one group of properties and that those properties were potentially eligible for carried interest (subject to the resolution of other issues at trial). On June 26, 2013, the Court granted Defendants' motion for reconsideration of that ruling, finding that the jury should decide whether those properties are potentially eligible for carried interest. The Court also ruled that Fitzpatrick may amend his complaint to plead a claim for past due carried interest payments arising out of SPEs created for the purpose of allowing Fitzpatrick and others to invest their own capital in real estate ventures alongside AIG, its affiliates or co-venturers. On March 26, 2013, Fitzpatrick filed a motion for leave to amend his complaint to assert those claims, to add certain additional SPEs as derivative plaintiffs, to clarify and conform to his employment agreement allegations in support of an existing claim for declaratory judgment related to the vesting of carried interest and to assert a claim for declaratory judgment and specific performance, and the court granted that motion on April 25, 2013. Defendants answered and filed their affirmative defenses to that complaint on June 13, 2013. On June 24, 2013, the Court set November 4, 2013 as the first day of trial. On July 17, 2013, Fitzpatrick moved for reconsideration of the June 26, 2013 order granting Defendants' motion for reconsideration. As set forth above, the possible range of our loss is $0 to $274 million, although Fitzpatrick claims that he is also entitled to additional unspecified amounts of carried interest and punitive damages.

False Claims Act Complaint

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a first amended complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The first amended complaint alleged that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and Maiden Lane II LLC (ML II) and ML III entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The first amended complaint sought unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and the first amended complaint were initially

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filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the first amended complaint on us on July 11, 2011. On April 19, 2013, the Court granted AIG's motion to dismiss, dismissing the first amended complaint in its entirety, without prejudice, giving the Relators the opportunity to file a second amended complaint. On May 24, 2013, the Relators filed a second amended complaint, which attempts to plead the same claims as the prior complaints and does not specify an amount of alleged damages. As a result of the absence of a statement of damages and the early stage of this litigation, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Litigation Matters Relating to AIG's Insurance Operations

Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action intervened in the first-filed action, and the second-filed action was dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage.

The complaints filed by the plaintiffs and the intervenors request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations.

On August 15, 2012, the trial court entered an order granting plaintiffs' motion for class certification. AIG and the other defendants have appealed that order to the Alabama Supreme Court, and the case in the trial court will be stayed until that appeal is resolved. General discovery has not commenced and AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Regulatory and Related Matters

Our life insurance companies have received and responded to industry-wide regulatory inquiries, including a multi-state audit and market conduct examination covering compliance with unclaimed property laws and a directive from the New York Insurance Department regarding claims settlement practices and other related state regulatory inquiries. The inquiries concern the use of the Social Security Death Master File (SSDMF) to identify potential claims not yet presented to us in the normal course of business. In connection with the resolution of the multi-state examination relating to these matters in the third quarter of 2012, we paid an $11 million regulatory assessment to the various state insurance departments that are parties to the regulatory settlement to defray costs of their examinations and monitoring. Although we have enhanced our claims practices to include use of the SSDMF, it is possible that the settlement remediation requirements, remaining inquiries, other regulatory activity or litigation could result in the payment of additional amounts. AIG has also received a demand letter from a purported AIG shareholder requesting that the Board of Directors investigate these matters, and bring appropriate legal proceedings against any person identified by the investigation as engaging in misconduct. AIG believes it has adequately reserved for such claims, but there can be no assurance that the ultimate cost will not vary, perhaps materially, from its estimate.

In connection with the previously disclosed multi-state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union), Chartis Inc., on behalf of itself, National Union, and certain of Chartis Inc.'s insurance and non-insurance companies (collectively, the Chartis parties) entered into a Regulatory Settlement Agreement with regulators from 50 U.S. jurisdictions

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effective November 29, 2012. Under the agreement, and without admitting any liability for the issues raised in the examination, the Chartis parties (i) paid a civil penalty of $50 million, (ii) entered into a corrective action plan describing agreed-upon specific steps and standards for evaluating the Chartis parties' ongoing compliance with laws and regulations governing the issues identified in the examination, and (iii) agreed to pay a contingent fine in the event that the Chartis parties fail to satisfy certain terms of the corrective action plan. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on our ongoing operations of the business subject to the agreement, or on similar business written by other AIG carriers.

Industry-wide examinations conducted by the Minnesota Department of Insurance and the Department of Housing and Urban Development (HUD) on captive reinsurance practices by lenders and mortgage insurance companies, including UGC, have been ongoing for several years. In 2011, the Consumer Financial Protection Bureau (CFPB) assumed responsibility for violations of the Real Estate Settlement Procedures Act from HUD, and assumed HUD's aforementioned ongoing investigation. In June 2012, the CFPB issued a Civil Investigative Demand (CID) to UGC and other mortgage insurance companies, requesting the production of documents and answers to written questions. The CFPB agreed to toll the deadlines associated with the CID pending discussions that could resolve the investigation. UGC and the CFPB reached a settlement, entered on April 8, 2013 by the United States District Court for the Southern District of Florida, where UGC consented to discontinue its remaining captive reinsurance practices and to pay a civil monetary penalty of $4.5 million to the CFPB. The settlement includes a release for all liability related to UGC's captive reinsurance practices and resolves the CFPB's investigation. UGC has received a proposed consent order from the Minnesota Commissioner of Commerce (the MN Commissioner) which alleges that UGC violated the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and other state and federal laws in connection with its practices with captive reinsurance companies owned by lenders. UGC engaged in discussions with the MN Commissioner with respect to the terms of the proposed consent order. UGC cannot predict if or when a consent order may be entered into or, if entered into, what the terms of the final consent order will be. UGC is also currently subject to civil litigation relating to its placement of reinsurance with captives owned by lenders, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course.

Other Contingencies

Liability for unpaid claims and claims adjustment expense

Although we regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business, which 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. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. There is the potential for reserves with respect to a number of years to 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 attributable to changes in economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, changes in medical cost trends (inflation, intensity and utilization of medical services), underlying policy pricing, terms and conditions, and claims handling practices.

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Commitments

Flight Equipment Related to Business Held for Sale

At June 30, 2013, ILFC had committed to purchase 281 new aircraft, which include 13 aircraft through sale-leaseback transactions with airlines, deliverable from 2013 through 2022. ILFC had also committed to purchase three used aircraft and nine new spare engines. Subsequent to June 30, 2013, ILFC contracted with Embraer S.A. to purchase 50 E-Jets E2 aircraft with rights to purchase an additional 50 such aircraft, and also entered into agreement with Airbus for the purchase of up to 15 A321 aircraft, which are committed for lease to a single airline upon their delivery, bringing the aggregate estimated total remaining payments to approximately $22.3 billion for a total of 346 new and three used aircraft. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price. These commitments are related to discontinued operations. See Note 4 for a discussion of the ILFC transaction.

Other Commitments

In the normal course of business, we enter into commitments to invest in limited partnerships, private equity funds and hedge funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $2.3 billion at June 30, 2013.

Guarantees

Subsidiaries

We have issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) and of AIG Markets, Inc. (AIG Markets) arising from transactions entered into by AIG Markets.

In connection with AIGFP's business activities, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at June 30, 2013 was $306 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of scheduled payments to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay.

Asset Dispositions

General

We are subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to our asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

ITEM 1 / NOTE 10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

We are unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Condensed Consolidated Balance Sheets.

ALICO Sale

Pursuant to the terms of the ALICO stock purchase agreement, we have agreed to provide MetLife with certain indemnities. The most significant remaining indemnities include:

- Indemnifications related to specific product, investment, litigation and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and may extend for various periods after the completion of the sale.

- Tax indemnifications related to insurance reserves that extend for taxable periods ending on or before December 31, 2013 and that are limited to an aggregate of $200 million, and certain other tax-related representations and warranties that extend to the expiration of the statute of limitations and are subject to an aggregate deductible of $50 million.

In connection with the indemnity obligations described above, approximately $20 million of proceeds from the sale of ALICO remained in escrow as of June 30, 2013, following the release to us from this escrow of approximately $547 million of proceeds on May 1, 2013.

Other

- See Note 8 for commitments and guarantees associated with VIEs.

- See Note 9 for disclosures about derivatives.

- See Note 16 for additional disclosures about guarantees of outstanding debt.

ITEM 1 / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11. EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Outstanding Shares
Six Months Ended June 30, 2013			
Shares, beginning of year	1,906,611,680	(430,289,745)	1,476,321,935
Issuances	2,092	23,984	26,076
Shares, end of period	1,906,613,772	(430,265,761)	1,476,348,011

Dividends and Repurchases of AIG Common Stock

Payment of future dividends to our shareholders depends in part on the regulatory framework that we are currently subject to and that will ultimately be applicable to us, including as a savings and loan holding company and a systemically important financial institution under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). In addition, dividends will be payable on AIG Common Stock only when, as and if declared by our Board of Directors in its discretion, from funds legally available therefor. In considering whether to pay a dividend or purchase shares of AIG Common Stock, our Board of Directors will take into account such matters as the performance of our businesses, our consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, contractual, legal and regulatory restrictions on the payment of dividends by our subsidiaries, rating agency considerations, including the potential effect on our debt ratings, and such other factors as our Board of Directors may deem relevant. We did not pay any cash dividends in the first half of 2013.

See Note 20 to the Consolidated Financial Statements in the 2012 Annual Report for a discussion of restrictions on payments of dividends to AIG Parent by its subsidiaries.

On August 1, 2013, our Board of Directors declared a cash dividend on AIG Common Stock and authorized the repurchase of AIG Common Stock. See Note 17 herein for further discussion.

ITEM 1 / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Accumulated Other Comprehensive Income

The following table presents a rollforward of Accumulated other comprehensive income:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities	Change in Retirement Plan Liabilities Adjustment	Total
Balance, December 31, 2012, net of tax	$ 575	$ 13,446	$ (403)	$	$ (1,044)	$ 12,574
Change in unrealized appreciation (depreciation) of investments	355	(11,632)				(11,277)
Change in deferred acquisition costs adjustment and other	(87)	630				543
Change in future policy benefits	49	2,491				2,540
Change in foreign currency translation adjustments			(566)			(566)
Net actuarial gain					104	104
Prior service credit					(27)	(27)
Change in deferred tax asset (liability)	(122)	3,277	(12)		(16)	3,127
Total other comprehensive income (loss)	195	(5,234)	(578)		61	(5,556)
Noncontrolling interests		(16)	(5)			(21)
Balance, June 30, 2013, net of tax	$ 770	$ 8,228	$ (976)	$	$ (983)	$ 7,039

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ITEM 1 / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the other comprehensive income reclassification adjustments for the three- and six-month periods ended June 30, 2013 and 2012:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities	Change in Retirement Plan Liabilities Adjustment	Total
Three Months Ended June 30, 2013						
Unrealized change arising during period	$ (102)	$ (6,854)	$ (273)	$	$ 8	$ (7,221)
Less: Reclassification adjustments included in net income	6	152			(26)	132
Total other comprehensive income (loss), before income tax expense (benefit)	(108)	(7,006)	(273)		34	(7,353)
Less: Income tax expense (benefit)	(21)	(2,560)	32		17	(2,532)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ (87)	$ (4,446)	$ (305)	$	$ 17	$ (4,821)
Three Months Ended June 30, 2012						
Unrealized change arising during period	$ 26	$ 2,149	$ (512)	$	$ 4	$ 1,667
Less: Reclassification adjustments included in net income	(2)	317		(4)	(13)	298
Total other comprehensive income (loss), before income tax expense (benefit)	28	1,832	(512)	4	17	1,369
Less: Income tax expense (benefit)	11	527	(85)	3	3	459
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 17	$ 1,305	$ (427)	$ 1	$ 14	$ 910

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ITEM 1 / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Recognized	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities	Change in Retirement Plan Liabilities Adjustment	Total
Six Months Ended June 30, 2013						
Unrealized change arising during period	$ 372	$ (8,132)	$ (566)	$	$ 26	$ (8,300)
Less: Reclassification adjustments included in net income	55	379			(51)	383
Total other comprehensive income (loss), before income tax expense (benefit)	317	(8,511)	(566)		77	(8,683)
Less: Income tax expense (benefit)	122	(3,277)	12		16	(3,127)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 195	$ (5,234)	$ (578)	$	$ 61	$ (5,556)
Six Months Ended June 30, 2012						
Unrealized change arising during period	$ 1,027	$ 4,472	$ (425)	$ (1)	$ 4	$ 5,077
Less: Reclassification adjustments included in net income	(4)	1,277		(9)	(42)	1,222
Total other comprehensive income (loss), before income tax expense (benefit)	1,031	3,195	(425)	8	46	3,855
Less: Income tax expense (benefit)	401	909	(89)	(15)	14	1,220
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 630	$ 2,286	$ (336)	$ 23	$ 32	$ 2,635

ITEM 1 / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

The following table presents the effect of the reclassification of significant items out of Accumulated other comprehensive income on the respective line items in the Condensed Consolidated Statements of Income:

	Amount Reclassified from Accumulated Other Comprehensive Income		
(in millions)	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Affected Line Item in the Condensed Consolidated Statements of Income
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were recognized			
Investments	$ 6	$ 55	Other realized capital gains
Total	6	55	
Unrealized appreciation (depreciation) of all other investments			
Investments	1,306	1,592	Other realized capital gains
Deferred acquisition costs adjustment	(37)	6	Amortization of deferred acquisition costs
Future policy benefits	(1,117)	(1,219)	Policyholder benefits and claims incurred
Total	152	379	
Change in retirement plan liabilities adjustment			
Prior-service costs	10	22	*
Actuarial gains/(losses)	(36)	(73)	*
Total	(26)	(51)	
Total reclassifications for the period	$ 132	$ 383	

* These Accumulated other comprehensive income components are included in the computation of net periodic pension cost. See Note 14 to the Condensed Consolidated Financial Statements.

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ITEM 1 / NOTE 12. NONCONTROLLING INTERESTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

12. NONCONTROLLING INTERESTS

The following table presents a rollforward of noncontrolling interests:

(in millions)	Redeemable Noncontrolling interests Held by Department of Treasury	Redeemable Noncontrolling interests Other	Redeemable Noncontrolling interests Total	Non-redeemable Noncontrolling interests
Six Months Ended June 30, 2013				
Balance, beginning of year	$	$ 334	$ 334	$ 667
Contributions from noncontrolling interests		48	48	13
Distributions to noncontrolling interests		(144)	(144)	(31)
Consolidation (deconsolidation)		(145)	(145)	1
Comprehensive income (loss):				
Net income		4	4	48
Other comprehensive income (loss), net of tax:				
Unrealized losses on investments		(15)	(15)	
Foreign currency translation adjustments		(2)	(2)	(4)
Total other comprehensive income (loss), net of tax		(17)	(17)	(4)
Total comprehensive income (loss)		(13)	(13)	44
Other				(2)
Balance, end of period	$	$ 80	$ 80	$ 692
Six Months Ended June 30, 2012				
Balance, beginning of year	$ 8,427	$ 96	$ 8,523	$ 855
Repayment to Department of the Treasury	(8,635)		(8,635)	
Contributions from noncontrolling interests		23	23	46
Distributions to noncontrolling interests				(100)
Consolidation (deconsolidation)		(4)	(4)	
Comprehensive income (loss):				
Net income (loss)	208	(3)	205	43
Other comprehensive income (loss), net of tax:				
Unrealized gains on investments				2
Foreign currency translation adjustments				(5)
Total other comprehensive income (loss), net of tax				(3)

Total comprehensive income (loss)	208	(3)	205	40
Other				(21)
Balance, end of period	$	$ 112	$ 112	$ 820

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ITEM 1 / NOTE 13. EARNINGS (LOSS) PER SHARE (EPS)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

13. EARNINGS PER SHARE (EPS)

Basic earnings per share is based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted EPS is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits.

The following table presents the computation of basic and diluted EPS:

(dollars in millions, except per share data)		Three Months Ended June 30, 2013		2012		Six Months Ended June 30, 2013		2012
Numerator for EPS:								
Income from continuing operations	$	**2,725**		2,160	$	**4,863**	$	5,545
Less: Net income from continuing operations attributable to noncontrolling interests:								
Nonvoting, callable, junior and senior preferred interests								208
Other		**27**		7		**52**		40
Total net income from continuing operations attributable to noncontrolling interests		**27**		7		**52**		248
Income attributable to AIG from continuing operations		**2,698**		2,153		**4,811**		5,297
Income attributable to AIG from discontinued operations		**33**		179		**126**		243
Net income attributable to AIG	$	**2,731**		2,332	$	**4,937**	$	5,540
Denominator for EPS:								
Weighted average shares outstanding basic		**1,476,512,720**		1,756,689,067		**1,476,491,719**		1,816,331,019
Dilutive shares		**5,733,898**		25,408		**2,970,893**		27,606
Weighted average shares outstanding diluted*		**1,482,246,618**		1,756,714,475		**1,479,462,612**		1,816,358,625
Income per common share attributable to AIG:								
Basic:								
Income from continuing operations	$	**1.83**	$	1.23	$	**3.26**	$	2.92

Income from discontinued operations	$	**0.02**	$	0.10	$	**0.08**	$	0.13
Net Income attributable to AIG	$	**1.85**	$	1.33	$	**3.34**	$	3.05
Diluted:								
Income from continuing operations	$	**1.82**	$	1.23	$	**3.25**	$	2.92
Income from discontinued operations	$	**0.02**	$	0.10	$	**0.08**	$	0.13
Net Income attributable to AIG	$	**1.84**	$	1.33	$	**3.33**	$	3.05

* Dilutive shares are calculated using the treasury stock method and include dilutive shares from share-based employee compensation plans, and a pro-rata portion of the warrants issued to the Department of the Treasury in 2008 and 2009, all of which warrants were purchased by AIG in the first quarter of 2013. The number of shares excluded from diluted shares outstanding were 75 million and 76 million for the three- and six-month periods ended June 30, 2013, respectively, and 78 million for both the three- and six-month periods ended June 30, 2012, respectively, because the effect of including those shares, warrants, and options in the calculation would have been anti-dilutive.

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ITEM 1 / NOTE 14. EMPLOYEE BENEFITS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

14. EMPLOYEE BENEFITS

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

	Pension			Postretirement		
(in millions)	U.S. Plans	Non-U.S. Plans	Total	U.S. Plans	Non-U.S. Plans	Total
Three Months Ended June 30, 2013						
Components of net periodic benefit cost:						
Service cost	**$ 44**	**$ 12**	**$ 56**	**$ 2**	**$ 1**	**$ 3**
Interest cost	**49**	**7**	**56**	**2**	**1**	**3**
Expected return on assets	**(64)**	**(5)**	**(69)**			
Amortization of prior service (credit) cost	**(9)**		**(9)**	**(2)**		**(2)**
Amortization of net (gain) loss	**33**	**3**	**36**			
Net periodic benefit cost	**$ 53**	**$ 17**	**$ 70**	**$ 2**	**$ 2**	**$ 4**
Three Months Ended June 30, 2012						
Components of net periodic benefit cost:						
Service cost	$ 39	$ 13	$ 52	$ 2	$	$ 2
Interest cost	50	9	59	2	1	3
Expected return on assets	(60)	(5)	(65)			
Amortization of prior service (credit) cost	(9)	(1)	(10)	(2)		(2)
Amortization of net (gain) loss	29	3	32			
Net periodic benefit cost	$ 49	$ 19	$ 68	$ 2	$ 1	$ 3
Six Months Ended June 30, 2013						
Components of net periodic benefit cost:						
Service cost	**$ 88**	**$ 24**	**$ 112**	**$ 3**	**$ 2**	**$ 5**
Interest cost	**98**	**15**	**113**	**4**	**1**	**5**
Expected return on assets	**(129)**	**(10)**	**(139)**			
Amortization of prior service (credit) cost	**(17)**	**(1)**	**(18)**	**(5)**		**(5)**
Amortization of net (gain) loss	**66**	**6**	**72**	**1**		**1**
Net periodic benefit cost	**$ 106**	**$ 34**	**$ 140**	**$ 3**	**$ 3**	**$ 6**
Six Months Ended June 30, 2012						
Components of net periodic benefit cost:						
Service cost	$ 76	$ 26	$ 102	$ 3	$ 1	$ 4
Interest cost	100	17	117	5	1	6
Expected return on assets	(120)	(10)	(130)			
Amortization of prior service (credit) cost	(17)	(2)	(19)	(5)		(5)
Amortization of net (gain) loss	58	7	65			
Net periodic benefit cost	$ 97	$ 38	$ 135	$ 3	$ 2	$ 5

For the six-month period ended June 30, 2013, we contributed $64 million to our U.S. and non-U.S. pension plans and estimate that we will contribute an additional $36 million for the remainder of 2013. These estimates are subject to change because contribution decisions are affected by various factors, including our liquidity, market performance and management discretion.

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ITEM 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15. INCOME TAXES

Interim Tax Calculation Method

We use the estimated annual effective tax rate method in computing our interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in the realizability of deferred tax assets and uncertain tax positions.

Interim Tax Expense (Benefit)

For the three- and six-month periods ended June 30, 2013, the effective tax rate on pretax income from continuing operations was 13.4 percent and 18.7 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2013, attributable to continuing operations differs from the statutory tax rate of 35 percent primarily due to tax effects associated with tax exempt interest income and a decrease in the life-insurance-business capital loss carryforward valuation allowance primarily attributable to the actual and projected gains on sales of AIG Life and Retirement's available-for-sale securities. For the six-month period ended June 30, 2013, these items were partially offset by changes in uncertain tax positions.

For the three- and six-month periods ended June 30, 2012, the effective tax rate on pretax income from continuing operations was (29.4) percent and 9.6 percent, respectively. The effective tax rate for the three- and six-month periods ended June 30, 2012, attributable to continuing operations differs from the statutory tax rate of 35 percent primarily due to tax effects associated with tax exempt interest income and investments in partnerships and a decrease in the life-insurance-business capital loss carryforward valuation allowance primarily attributable to the actual and projected gains on sales of AIG Life and Retirement's available-for-sale securities. These items were partially offset by changes in uncertain tax positions.

Assessment of Deferred Tax Asset Valuation Allowance

The evaluation of the recoverability of our deferred tax asset and the need for a valuation allowance requires us to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of the deferred tax asset requires us to consider all available evidence, including:

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;

- the sustainability of recent operating profitability of our subsidiaries;

- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;

- the carryforward period for the capital loss carryforwards, including the effect of reversing taxable temporary differences; and

- prudent and feasible actions and tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax asset.

As a result of sales in the ordinary course of business to manage the investment portfolio and the application of prudent and feasible tax planning strategies, during the three-month period ended June 30, 2013, we determined that an additional portion of the life insurance business capital loss carryforwards will more-likely-than-not be realized prior to their expiration.

ITEM 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

We released an additional $0.5 billion of the deferred tax asset valuation allowance associated with the life insurance business capital loss carryforwards during the three-month period ended June 30, 2013, substantially all of which was allocated to income from continuing operations. For the six-month period ended June 30, 2013, we released $1.4 billion of the deferred tax asset valuation allowance associated with the life insurance business capital loss carryforwards, of which $1.3 billion was allocated to income from continuing operations and $0.1 billion to other comprehensive income. Additional life insurance business capital loss carryforwards may be realized in the future if and when other prudent and feasible tax planning strategies are identified. Changes in market conditions, including rising interest rates above our projections, may result in a reduction in projected taxable gains and reestablishment of a valuation allowance.

During the three-month period ended June 30, 2013, we released $0.2 billion of the deferred tax asset valuation allowance associated with state and local jurisdictions, primarily attributable to the ability to demonstrate profits within a specific state and local jurisdiction over relevant carryforward periods.

Tax Examinations and Litigation

On March 29, 2013, the U.S. District Court for the Southern District of New York, denied our motion for partial summary judgment related to the disallowance of foreign tax credits associated with cross border financing transactions. On April 17, 2013, we initiated a request for certification of the court's decision for immediate appeal to the United States Court of Appeals for the Second Circuit. We will vigorously defend our position, and continue to believe that we have adequate reserves for any liability that could result from the IRS actions.

Accounting for Uncertainty in Income Taxes

At June 30, 2013 and December 31, 2012, our unrecognized tax benefits, excluding interest and penalties, were $4.9 billion and $4.4 billion, respectively. The increase in our unrecognized tax benefits, excluding interest and penalties, was primarily due to foreign tax credits associated with cross border financing transactions. At June 30, 2013 and December 31, 2012, our unrecognized tax benefits included $ 0.2 billion related to tax positions that if recognized would not affect the effective tax rate because they relate to the timing, rather than the permissibility, of the deduction. Accordingly, at June 30, 2013 and December 31, 2012, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $4.7 billion and $ 4.2 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At June 30, 2013 and December 31, 2012, we accrued $1.0 billion and $935 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the six month periods ended June 30, 2013 and 2012, we recognized $80 million and $108 million, respectively, of income tax expense (benefit) for interest net of the federal benefit (expense) and penalties.

We regularly evaluate adjustments proposed by taxing authorities. At June 30, 2013, such proposed adjustments would not have resulted in a material change to our consolidated financial condition, although it is possible that the effect could be material to our consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next 12 months, based on the information currently available, we do not expect any change to be material to our consolidated financial condition or results of operations.

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

The following condensed consolidating financial statements reflect the results of AIG Life Holdings, Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

Condensed Consolidating Balance Sheets

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
June 30, 2013					
Assets:					
Short-term investments	$ 10,141	$	$ 12,080	$ (2,006)	$ 20,215
Other investments[(a)]	7,189		330,803		337,992
Total investments	17,330		342,883	(2,006)	358,207
Cash	107	31	1,624		1,762
Loans to subsidiaries[(b)]	32,394		1,446	(33,840)	
Investment in consolidated subsidiaries[(b)]	68,722	39,770		(108,492)	
Other assets, including current and deferred income taxes	23,635	140	121,902	624	146,301
Assets held for sale			31,168		31,168
Total assets	$ 142,188	$ 39,941	$ 499,023	$ (143,714)	$ 537,438
Liabilities:					
Insurance liabilities	$	$	$ 274,433	$ (118)	$ 274,315
Long-term debt	31,787	1,393	9,434		42,614
Other liabilities, including intercompany balances[(a)(c)]	11,807	149	85,099	(1,277)	95,778
Loans from subsidiaries[(b)]	1,131	350	32,360	(33,841)	
Liabilities held for sale			26,496		26,496
Total liabilities	44,725	1,892	427,822	(35,236)	439,203
Redeemable noncontrolling interests (see Note 12)			80		80
Total AIG shareholders' equity	97,463	38,049	70,429	(108,478)	97,463
Non-redeemable noncontrolling interests			692		692
Total equity	97,463	38,049	71,121	(108,478)	98,155

Total liabilities and equity	**$ 142,188**	**$ 39,941**	**$ 499,023**	**$ (143,714)**	**$ 537,438**
December 31, 2012					
Assets:					
Short-term investments	$ 14,764	$	$ 18,323	$ (4,279)	$ 28,808
Other investments[(a)]	3,902		345,706	(2,592)	347,016
Total investments	18,666		364,029	(6,871)	375,824
Cash	81	73	997		1,151
Loans to subsidiaries[(b)]	35,064		5,169	(40,233)	
Investment in consolidated subsidiaries[(b)]	70,781	43,891	(28,239)	(86,433)	
Other assets, including current and deferred income taxes	23,153	150	121,345	(4,955)	139,693
Assets held for sale			31,965		31,965
Total assets	$ 147,745	$ 44,114	$ 495,266	$ (138,492)	$ 548,633
Liabilities:					
Insurance liabilities	$	$	$ 280,533	$ (235)	$ 280,298
Long-term debt	36,366	1,638	10,197	299	48,500
Other liabilities, including intercompany balances[(a)(c)]	12,375	261	89,976	(9,146)	93,466
Loans from subsidiaries[(b)]	1,002	472	41,754	(43,228)	
Liabilities held for sale			27,366		27,366
Total liabilities	49,743	2,371	449,826	(52,310)	449,630
Redeemable noncontrolling interests (see Note 12)			192	142	334
Total AIG shareholders' equity	98,002	41,743	44,955	(86,698)	98,002
Non-redeemable noncontrolling interests			293	374	667
Total equity	98,002	41,743	45,248	(86,324)	98,669
Total liabilities and equity	$ 147,745	$ 44,114	$ 495,266	$ (138,492)	$ 548,633

(a) Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(b) Eliminated in consolidation.

(c) For June 30, 2013 and December 31, 2012, includes intercompany tax payables of $6.3 billion and $6.1 billion, respectively, and intercompany derivative liabilities of $527 million and $602 million, respectively, for American International Group, Inc. (As Guarantor) and intercompany tax receivables for $82 million and $120 million, respectively, for AIGLH.

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Income

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
Three Months Ended June 30, 2013					
Revenues:					
Equity in earnings of consolidated subsidiaries[a]	$ 2,374	$ 754	$	$ (3,128)	$
Other income[b]	673		16,726	(84)	17,315
Total revenues	3,047	754	16,726	(3,212)	17,315
Expenses:					
Interest expense[c]	482	32	36	(15)	535
Loss on extinguishment of debt	38				38
Other expenses	335		13,317	(57)	13,595
Total expenses	855	32	13,353	(72)	14,168
Income (loss) from continuing operations before income tax expense (benefit)	2,192	722	3,373	(3,140)	3,147
Income tax expense (benefit)	(538)	(3)	967	(4)	422
Income (loss) from continuing operations	2,730	725	2,406	(3,136)	2,725
Income from discontinued operations, net of income taxes	1		32		33
Net income (loss)	2,731	725	2,438	(3,136)	2,758
Less:					
Net income from continuing operations attributable to noncontrolling interests			27		27
Net income (loss) attributable to AIG	$ 2,731	$ 725	$ 2,411	$ (3,136)	$ 2,731
Three Months Ended June 30, 2012					
Revenues:					
Equity in earnings of consolidated subsidiaries[a]	$ 1,126	$ 84	$	$ (1,210)	$
Change in fair value of ML III	1,306				1,306
Other income[b]	50		14,930	(65)	14,915
Total revenues	2,482	84	14,930	(1,275)	16,221
Expenses:					
Interest expense[c]	525	44	62	(64)	567

Net loss on extinguishment of debt	9				9
Other expenses	926		13,050		13,976
Total expenses	1,460	44	13,112	(64)	14,552
Income (loss) from continuing operations before income tax expense (benefit)	1,022	40	1,818	(1,211)	1,669
Income tax expense (benefit)	(1,310)	463	356		(491)
Income (loss) from continuing operations	2,332	(423)	1,462	(1,211)	2,160
Income from discontinued operations, net of income taxes			179		179
Net income (loss)	2,332	(423)	1,641	(1,211)	2,339
Less:					
Net income from continuing operations attributable to noncontrolling interests:					
Other			7		7
Net income from continuing operations attributable to noncontrolling interests			7		7
Net income (loss) attributable to AIG	$ 2,332	$ (423)	$ 1,634	$ (1,211)	$ 2,332

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
Six Months Ended June 30, 2013					
Revenues:					
Equity in earnings of consolidated subsidiaries[(a)]	$ 4,265	$ 1,424	$	$ (5,689)	$
Other income[(b)]	967		32,389	(153)	33,203
Total revenues	5,232	1,424	32,389	(5,842)	33,203
Expenses:					
Interest expense[(c)]	1,010	68	118	(84)	1,112
Loss on extinguishment of debt	307		71		378
Other expenses	593	71	25,127	(57)	25,734
Total expenses	1,910	139	25,316	(141)	27,224
Income (loss) from continuing operations before income tax expense (benefit)	3,322	1,285	7,073	(5,701)	5,979
Income tax expense (benefit)	(1,618)	(14)	2,752	(4)	1,116
Income (loss) from continuing operations	4,940	1,299	4,321	(5,697)	4,863
Income (loss) from discontinued operations, net of income taxes	(3)		129		126
Net income (loss)	4,937	1,299	4,450	(5,697)	4,989
Less:					
Net income from continuing operations attributable to noncontrolling interests			52		52
Net income (loss) attributable to AIG	$ 4,937	$ 1,299	$ 4,398	$ (5,697)	$ 4,937
Six Months Ended June 30, 2012					
Revenues:					
Equity in earnings of consolidated subsidiaries[(a)]	$ 3,946	$ 136	$	$ (4,082)	$
Change in fair value of ML III	1,957		601		2,558
Other income[(b)]	701	49	30,679	(269)	31,160
Total revenues	6,604	185	31,280	(4,351)	33,718
Expenses:					
Interest expense[(c)]	1,169	98	133	(268)	1,132
Net loss on extinguishment of debt	9				9
Other expenses	1,105		25,337		26,442
Total expenses	2,283	98	25,470	(268)	27,583

Income (loss) from continuing operations before income tax expense (benefit)	4,321	87	5,810	(4,083)	6,135
Income tax expense (benefit)	(1,219)	463	1,346		590
Income (loss) from continuing operations	5,540	(376)	4,464	(4,083)	5,545
Income from discontinued operations, net of income taxes			243		243
Net income (loss)	5,540	(376)	4,707	(4,083)	5,788
Less:					
Net income (loss) from continuing operations attributable to noncontrolling interests:					
Nonvoting, callable, junior and senior preferred interests				208	208
Other			40		40
Net income from continuing operations attributable to noncontrolling interests			40	208	248
Net income (loss) attributable to AIG	$ 5,540	$ (376)	$ 4,667	$ (4,291)	$ 5,540

(a) Eliminated in consolidation.

(b) Includes intercompany income of $74 million and $60 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $140 million and $131 million for the six-month period ended June 30, 2013 and 2012, respectively, for American International Group, Inc. (As Guarantor).

(c) Includes intercompany interest expense of $2 million and $3 million for the three-month periods ended June 30, 2013 and 2012, respectively, and $5 million and $136 million for the six-month period ended June 30, 2013 and 2012, respectively, for American International Group, Inc. (As Guarantor).

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Comprehensive Income

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
Three Months Ended June 30, 2013					
Net income (loss)	$ 2,731	$ 725	$ 2,438	$ (3,136)	$ 2,758
Other comprehensive income (loss)	(4,800)	(3,351)	(4,707)	8,037	(4,821)
Comprehensive income (loss)	(2,069)	(2,626)	(2,269)	4,901	(2,063)
Total comprehensive income attributable to noncontrolling interests			6		6
Comprehensive income (loss) attributable to AIG	$ (2,069)	$ (2,626)	$ (2,275)	$ 4,901	$ (2,069)
Three Months Ended June 30, 2012					
Net income (loss)	$ 2,332	$ (423)	$ 1,641	$ (1,211)	$ 2,339
Other comprehensive income (loss)	918	934	1,720	(2,662)	910
Comprehensive income (loss)	3,250	511	3,361	(3,873)	3,249
Total comprehensive loss attributable to noncontrolling interests			(1)		(1)
Comprehensive income (loss) attributable to AIG	$ 3,250	$ 511	$ 3,362	$ (3,873)	$ 3,250
Six Months Ended June 30, 2013					
Net income (loss)	$ 4,937	$ 1,299	$ 4,450	$ (5,697)	$ 4,989
Other comprehensive income (loss)	(5,535)	(3,990)	(5,627)	9,596	(5,556)
Comprehensive income (loss)	(598)	(2,691)	(1,177)	3,899	(567)
Total comprehensive income attributable to noncontrolling interests			31		31
Comprehensive income (loss) attributable to AIG	$ (598)	$ (2,691)	$ (1,208)	$ 3,899	$ (598)
Six Months Ended June 30, 2012					
Net income (loss)	$ 5,540	$ (376)	$ 4,707	$ (4,083)	$ 5,788
Other comprehensive income (loss)	2,638	1,759	3,695	(5,457)	2,635
Comprehensive income (loss)	8,178	1,383	8,402	(9,540)	8,423
			37	208	245

Total comprehensive income attributable to noncontrolling interests										
Comprehensive income (loss) attributable to AIG	$	8,178	$	1,383	$	8,365	$	(9,748)	$	8,178

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Condensed Consolidating Statements of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Six Months Ended June 30, 2013				
Net cash (used in) provided by operating activities continuing operations	$ 698	$ 1,809	$ (2,188)	$ 319
Net cash provided by operating activities discontinued operations			1,355	1,355
Net cash (used in) provided by operating activities	698	1,809	(833)	1,674
Cash flows from investing activities:				
Sales of investments	646		38,446	39,092
Purchase of investments	(4,179)		(37,672)	(41,851)
Loans to subsidiaries net	2,427		(2,427)	
Contributions to subsidiaries net	(86)	(1)	87	
Net change in restricted cash	422		534	956
Net change in short-term investments	4,129		4,395	8,524
Other, net	205		(622)	(417)
Net cash (used in) provided by investing activities continuing operations	3,564	(1)	2,741	6,304
Net cash (used in) investing activities discontinued operations			(233)	(233)
Net cash (used in) provided by investing activities	3,564	(1)	2,508	6,071
Cash flows from financing activities:				
Issuance of long-term debt			486	486
Repayments of long-term debt	(4,107)	(245)	(1,051)	(5,403)
Intercompany loans net	128	(123)	(5)	
Cash dividends paid		(1,482)	1,482	
Other, net	(257)		(762)	(1,019)
Net cash (used in) provided by financing activities continuing operations	(4,236)	(1,850)	150	(5,936)
Net cash (used in) financing activities discontinued operations			(1,119)	(1,119)
Net cash (used in) financing activities	(4,236)	(1,850)	(969)	(7,055)
Effect of exchange rate changes on cash			(70)	(70)

Change in cash	**26**	**(42)**	**636**	**620**
Cash at beginning of period	**81**	**73**	**997**	**1,151**
Reclassification to assets held for sale			**(9)**	**(9)**
Cash at end of period	**$ 107**	**$ 31**	**$ 1,624**	**$ 1,762**
Six Months Ended June 30, 2012				
Net cash (used in) provided by operating activities continuing operations	$ (272)	$ 2,290	$ (1,812)	$ 206
Net cash provided by operating activities discontinued operations			1,426	1,426
Net cash (used in) provided by operating activities	(272)	2,290	(386)	1,632
Cash flows from investing activities:				
Sales of investments	1,055		45,836	46,891
Purchase of investments	(526)		(34,426)	(34,952)
Loans to subsidiaries net	3,410		(3,410)	
Contributions to subsidiaries net	(106)		106	
Net change in restricted cash	(370)		86	(284)
Net change in short-term investments	2,898		(3,757)	(859)
Other, net	342		(219)	123
Net cash provided by investing activities continuing operations	6,703		4,216	10,919
Net cash (used in) investing activities discontinued operations			(48)	(48)
Net cash provided by investing activities	6,703		4,168	10,871
Cash flows from financing activities:				
Issuance of long-term debt	3,504		541	4,045
Repayments of long-term debt	(2,981)		(2,290)	(5,271)
Intercompany loans net	(2,014)	(2,303)	4,317	
Purchase of common stock	(5,000)			(5,000)
Other, net	(44)		(6,261)	(6,305)
Net cash (used in) financing activities continuing operations	(6,535)	(2,303)	(3,693)	(12,531)
Net cash (used in) financing activities discontinued operations			(190)	(190)
Net cash (used in) financing activities	(6,535)	(2,303)	(3,883)	(12,721)
Effect of exchange rate changes on cash			(24)	(24)
Change in cash	(104)	(13)	(125)	(242)
Cash at beginning of period	176	13	1,285	1,474
Cash at end of period	$ 72	$	$ 1,160	$ 1,232

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ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Supplementary Disclosure of Condensed Consolidating Cash Flow Information

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Cash (paid) received during the six month period ended June 30, 2013 period for:				
Interest:				
Third party	**$ (1,117)**	**$ (57)**	**$ (1,234)**	**$ (2,408)**
Intercompany	**(5)**	**(14)**	**19**	
Taxes:				
Income tax authorities	**$ (6)**	**$**	**$ (203)**	**$ (209)**
Intercompany	**501**	**(78)**	**(423)**	
Cash (paid) received during the six month period ended June 30, 2012 period for:				
Interest:				
Third party	$ (1,136)	$ (64)	$ (888)	$ (2,088)
Intercompany	(128)	(47)	175	
Taxes:				
Income tax authorities	$ 2	$	$ (208)	$ (206)
Intercompany	605	(41)	(564)	

American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:

Six Months Ended June 30, *(in millions)*	2013	2012
Intercompany non-cash financing and investing activities:		
Capital contributions		
in the form of bond available for sale securities	**$**	$ 959
to subsidiaries through forgiveness of loans	**341**	
Return of capital and dividend received		
in the form of cancellation of intercompany loan		9,303
in the form of bond trading securities		3,320
Other capital contributions net	**245**	339

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17. SUBSEQUENT EVENTS

Dividend Declared

On August 1, 2013, our Board of Directors declared a cash dividend on AIG Common Stock of $0.10 per share, payable on September 26, 2013 to shareholders of record on September 12, 2013. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on various factors, including the regulatory framework applicable to us, as discussed further in Note 11 herein.

Authorized Share Repurchase

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. The timing of such repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

International Lease Finance Corporation Sale

As of August 5, 2013, the closing of the ILFC Transaction has not occurred. See Note 4 herein for further discussion.

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ITEM 2 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GLOSSARY AND ACRONYMS OF SELECTED INSURANCE TERMS AND REFERENCES

Throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), we use certain terms and abbreviations that are defined in the Glossary and Acronyms on pages 185 and 188, respectively.

American International Group, Inc. (AIG) has incorporated into this discussion a number of cross-references to additional information included elsewhere in this Quarterly Report on Form 10-Q to assist readers seeking additional information related to a particular subject.

In this Quarterly Report on Form 10-Q, 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.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q and other publicly available documents may include, and officers and representatives of 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 AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's 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:

the monetization of AIG's interests in International Lease Finance Corporation (ILFC), including whether AIG's proposed sale of up to 90 percent of ILFC will be completed and if completed, the timing and final terms of such sale;

AIG's exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers and sovereign bond issuers;

AIG's exposure to European governments and European financial institutions;

AIG's strategy for risk management;

AIG's generation of deployable capital;

AIG's return on equity and earnings per share long-term aspirational goals;

AIG's strategies to grow net investment income, efficiently manage capital and reduce expenses;

AIG's strategies for customer retention, growth, product development, market position, financial results and reserves; and the revenues and combined ratios of AIG's subsidiaries.

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It is possible that AIG's 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 AIG's 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 AIG is subject as a savings and loan holding company (SLHC), as a systemically important financial institution (SIFI) and as a global systemically important insurer (G-SII);
- concentrations in AIG's investment portfolios;
- actions by credit rating agencies;
- judgments concerning casualty insurance underwriting and insurance liabilities;
- judgments concerning the recognition of deferred tax assets; and
- such other factors discussed in:
  - this Part I, Item 2. MD&A and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q;
  - Part I, Item 2. MD&A of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013; and
  - Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Annual Report).

AIG is 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.

The MD&A is organized as follows:

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ITEM 2 / USE OF NON-GAAP MEASURES

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful, representative and most transparent. 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 Common Share Excluding Accumulated Other Comprehensive Income (Loss) (AOCI) is used to show the amount of our net worth on a per-share basis. We believe Book Value Per Common 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 portfolio and foreign currency translation adjustments. Book Value Per Common 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 below in the Executive Overview section of this MD&A.

We use the following operating performance measures because we believe they enhance understanding of the underlying profitability of continuing operations and trends of AIG and 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.

AIG **After-tax operating income (loss) attributable to AIG** is derived by excluding the following items from net income (loss) attributable to AIG: income (loss) from discontinued operations, net loss (gain) on sale of divested businesses, income from divested businesses, legacy tax adjustments primarily related to certain changes in uncertain tax positions and other tax adjustments, legal reserves (settlements) related to "legacy crisis matters," deferred income tax valuation allowance (releases) charges, changes in fair value of AIG Life and Retirement securities designated to hedge living benefit liabilities, 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) losses, (gain) loss on extinguishment of debt, net realized capital (gains) losses, non-qualifying derivative hedging activities, excluding net realized capital (gains) losses, and bargain purchase gain. "Legacy crisis matters" include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis and legal fees incurred by AIG as the plaintiff in connection with such legal matters.

AIG Property Casualty

Operating income (loss): includes both underwriting income (loss) and net investment income, but excludes net realized capital (gains) losses, other (income) expense, legal settlements related to legacy crisis matters described above and bargain purchase gain. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expense, acquisition expense and general operating expense.

Ratios: AIG Property Casualty, along with most property and casualty insurance companies, uses 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 claims and claims adjustment expense, 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 ratio, as adjusted: the loss ratio excluding 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 on AIG

Property Casualty in excess of $10 million each.

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ITEM 2 / USE OF NON-GAAP MEASURES

Accident year combined ratio, as adjusted: the combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting.

AIG Life and Retirement

Operating income (loss): is derived by excluding the following items from net income (loss): legal settlements related to legacy crisis matters described above, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses. We believe that Operating income (loss) is useful because excluding these volatile items permits investors to better assess the operating performance of the underlying business by highlighting the results from ongoing operations.

Premiums and deposits: includes life insurance premiums and deposits on annuity contracts, guaranteed investment contracts (GICs) and mutual funds.

Other Operations **Operating income (loss):** income (loss) excluding certain legal reserves (settlements) related to legacy crisis matters described above, (gain) loss on extinguishment of debt, Net realized capital (gains) losses, net (gains) losses on sale of divested businesses and properties, and income from divested businesses.

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

Executive Overview

This overview of management's discussion and analysis 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 Quarterly Report on Form 10-Q, together with the 2012 Annual Report, in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting AIG and its subsidiaries.

We report our results of operations as follows:

AIG Property Casualty AIG Property Casualty offers property and casualty insurance products and services to businesses and individuals worldwide. Commercial insurance products for large and small businesses are primarily distributed through insurance brokers. Major lines of business include casualty, property, financial and specialty (including aerospace, environmental, surety, marine, trade credit and political risk insurance). Consumer insurance products are distributed to individual consumers or groups of consumers through insurance brokers, agents, and on a direct-to-consumer basis. Consumer insurance products include accident & health (A&H) and personal insurance. In addition, Fuji Fire & Marine Insurance Company Limited (Fuji) in Japan offers life insurance products through Fuji Life Insurance Company (Fuji Life), which are included in A&H.

AIG Life and Retirement AIG Life and Retirement offers a comprehensive suite of products and services to individuals and groups, including term life, universal life, A&H, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. AIG Life and Retirement offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms. During the first quarter of 2013, AIG Life and Retirement completed its previously announced reporting structure changes and now presents its results in the following two operating segments: Retail and Institutional. See Segment Results AIG Life and Retirement Operations for additional information.

Other Operations AIG's Other operations include results from Mortgage Guaranty operations (conducted through United Guaranty Corporation (UGC)), Global Capital Markets (GCM) operations (consisting of the operations of AIG Markets, Inc. (AIG Markets) and the remaining derivatives portfolio of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP)), Direct Investment book (including the Matched Investment Program (MIP) and certain non-derivative assets and liabilities of AIGFP), Retained Interests and Corporate & Other operations (after allocations to AIG's business segments).

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We continued our positive financial and operational performance in 2013:

AIG Property Casualty reported operating income in the three- and six-month periods ended June 30, 2013 of $1.1 billion and $2.7 billion, respectively, compared to $936 million and $2.0 billion in the same periods in the prior year. Underwriting performance improved in the three- and six-month periods ended June 30, 2013, as evidenced by the accident year combined ratio, as adjusted, which declined to 96.5 and 97.0, respectively, compared to 98.3 and 99.3 in the same periods in the prior year. Net investment income in the three- and six-month periods ended June 30, 2013 also benefited from the strong performance of alternative investments and gains on fair value option securities.

AIG Life and Retirement reported growth in assets under management since December 31, 2012 from robust sales of variable annuities and retail mutual funds and appreciation due to higher equity markets. Operating income improved from effective spread management, higher net investment income and growth in fee income.

Mortgage Guaranty reported a 63 percent increase in new insurance written in both the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012 and has experienced improving market conditions including increasing home values.

Our investment portfolio performance, excluding gains recognized in 2012 from our previous investments in Maiden Lane II LLC (ML II), Maiden Lane III LLC (ML III) and AIA Group Limited (AIA), improved in the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012 through yield enhancement initiatives, including the reduction of our concentration in lower-yielding tax-exempt municipal securities and the purchase of higher-yielding securities. The investment portfolio performance also improved due to an increase in alternative investment income primarily as a result of favorable equity market performance in the six months ended June 30, 2013.

Realized capital gains improved in the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012 because certain assets in unrealized gain positions were sold as part of a program to utilize capital loss carryforwards.

We reduced our debt in the first half of 2013 as a result of maturities, repayments and purchases of $5.6 billion of debt, including:

- the redemption of $1.1 billion aggregate principal amount of our 7.70% Series A-5 Junior Subordinated Debentures and the redemption of $750 million aggregate principal amount of our 6.45% Series A-4 Junior Subordinated Debentures and;

- our purchase, in cash tender offers, of an aggregate principal amount of approximately $1.0 billion, for an aggregate purchase price of approximately $1.3 billion, of our junior subordinated debentures, capital securities issued by three statutory trusts controlled by AIG Life Holdings, Inc. (AIGLH) and senior debentures we had assumed that were originally issued by SunAmerica Inc.

- we also made other repayments of approximately $2.7 billion.

As a result of the redemptions and cash tender offers, we expect annual interest expense to decrease by approximately $213 million.

We maintained financial flexibility in the first half of 2013 through $792 million in cash dividends from AIG Property Casualty subsidiaries and $1.9 billion in cash dividends and loan repayments from AIG Life and Retirement subsidiaries.

On August 1, 2013, our Board of Directors declared a cash dividend on AIG Common Stock of $0.10 per share, payable on September 26, 2013 to shareholders of record on September 12, 2013.

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.

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Our Performance Selected Indicators

(in millions, except per share data and ratios)	Three Months Ended June 30,	Six Months Ended June 30,