AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 02, 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 March 31, 2013 **Commission File Number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 April 25, 2013, there were 1,476,345,165 shares outstanding of the registrant's common stock.

AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2013
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PART I FINANCIAL INFORMATION

ITEM 1. / FINANCIAL STATEMENTS

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

(in millions, except for share data)	March 31, 2013	December 31, 2012
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2013 $247,592; 2012 $246,149)	$ 270,251	$ 269,959
Bond trading securities, at fair value	23,855	24,584
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2013 $1,529; 2012 $1,640)	3,108	3,212
Common and preferred stock trading, at fair value	696	662
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2013 $58; 2012 $134)	19,488	19,482
Other invested assets (portion measured at fair value: 2013 $7,317; 2012 $7,056)	28,965	29,117
Short-term investments (portion measured at fair value: 2013 $6,412; 2012 $8,056)	23,336	28,808
Total investments	369,699	375,824
Cash	1,227	1,151
Accrued investment income	3,093	3,054
Premiums and other receivables, net of allowance	15,310	13,989
Reinsurance assets, net of allowance	27,604	25,595
Deferred income taxes	17,741	17,466
Deferred policy acquisition costs	7,972	8,182
Derivative assets, at fair value	3,290	3,671
Other assets, including restricted cash of $1,886 in 2013 and $1,878 in 2012 (portion measured at fair value: 2013 $694; 2012 $696)	10,069	10,399
Separate account assets, at fair value	61,059	57,337
Assets held for sale	31,816	31,965
Total assets	$ 548,880	$ 548,633
Liabilities:		
Liability for unpaid claims and claims adjustment expense	$ 85,774	$ 87,991
Unearned premiums	24,200	22,537
Future policy benefits for life and accident and health insurance contracts	40,443	40,523
Policyholder contract deposits (portion measured at fair value: 2013 $1,047; 2012 $1,257)	121,856	122,980
Other policyholder funds	5,728	6,267
Derivative liabilities, at fair value	3,711	4,061
Other liabilities (portion measured at fair value: 2013 $924; 2012 $1,080)	33,108	32,068
Long-term debt (portion measured at fair value: 2013 $7,663; 2012 $8,055)	45,266	48,500
Separate account liabilities	61,059	57,337

Liabilities held for sale		**27,164**		27,366
Total liabilities		**448,309**		449,630
Contingencies, commitments and guarantees (see Note 10)				
Redeemable noncontrolling interests (see Note 12)		**388**		334
AIG shareholders' equity:				
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2013 1,906,612,296 and 2012 1,906,611,680		**4,766**		4,766
Treasury stock, at cost; 2013 430,267,133; 2012 430,289,745 shares of common stock		**(13,923)**		(13,924)
Additional paid-in capital		**80,456**		80,410
Retained earnings		**16,382**		14,176
Accumulated other comprehensive income		**11,839**		12,574
Total AIG shareholders' equity		**99,520**		98,002
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale)		**663**		667
Total equity		**100,183**		98,669
Total liabilities and equity	**$**	**548,880**	$	548,633

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

Three Months Ended March 31, *(dollars in millions, except per share data)*	2013	2012
Revenues:		
Premiums	$ 9,372	$ 9,470
Policy fees	615	584
Net investment income	4,164	7,105
Net realized capital gains (losses):		
Total other-than-temporary impairments on available for sale securities	(40)	(168)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(1)	(285)
Net other-than-temporary impairments on available for sale securities recognized in net income	(41)	(453)
Other realized capital gains	341	202
Total net realized capital gains (losses)	300	(251)
Other income	1,437	589
Total revenues	15,888	17,497
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	6,728	7,119
Interest credited to policyholder account balances	1,017	1,062
Amortization of deferred acquisition costs	1,286	1,347
Other acquisition and insurance expenses	2,238	2,258
Interest expense	577	565
Loss on extinguishment of debt	340	
Other expenses	870	680
Total benefits, claims and expenses	13,056	13,031
Income from continuing operations before income tax expense	2,832	4,466
Income tax expense	694	1,081
Income from continuing operations	2,138	3,385
Income from discontinued operations, net of income tax expense	93	64
Net income	2,231	3,449
Less:		
Net income from continuing operations attributable to noncontrolling interests:		
Nonvoting, callable, junior and senior preferred interests		208
Other	25	33

Total net income from continuing operations attributable to noncontrolling interests		**25**		241
Net income attributable to AIG	**$**	**2,206**	$	3,208
Income per common share attributable to AIG:				
Basic and diluted:				
Income from continuing operations	**$**	**1.43**	$	1.68
Income from discontinued operations	**$**	**0.06**	$	0.03
Net Income attributable to AIG	**$**	**1.49**	$	1.71
Weighted average shares outstanding:				
Basic		**1,476,471,097**		1,875,972,970
Diluted		**1,476,678,931**		1,876,002,775

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

Three Months Ended March 31, *(in millions)*	**2013**	**2012**
Net income	**$ 2,231**	$ 3,449
Other comprehensive income (loss), net of tax		
Change in unrealized appreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	**282**	613
Change in unrealized appreciation (depreciation) of all other investments	**(788)**	981
Change in foreign currency translation adjustments	**(273)**	91
Change in net derivative gains arising from cash flow hedging activities		22
Change in retirement plan liabilities adjustment	**44**	18
Other comprehensive income (loss)	**(735)**	1,725
Comprehensive income	**1,496**	5,174
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests		208
Comprehensive income attributable to other noncontrolling interests	**25**	38
Total comprehensive income attributable to noncontrolling interests	**25**	246
Comprehensive income attributable to AIG	**$ 1,471**	$ 4,928

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)

Three Months Ended March 31, 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*				2,206		2,206	10	2,216
Other comprehensive loss					(735)	(735)	(1)	(736)
Deferred income taxes			(5)			(5)		(5)
Contributions from noncontrolling interests							8	8
Distributions to noncontrolling interests							(19)	(19)
Other		1	51			52	(2)	50
Balance, end of period	$ 4,766	$ (13,923)	$ 80,456	$ 16,382	$ 11,839	$ 99,520	$ 663	$ 100,183

* Excludes gains of $15 million for the three months ended March 31, 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 STATEMENT OF CASH FLOWS (unaudited)

Three Months Ended March 31, *(in millions)*	2013	2012
Cash flows from operating activities:		
Net income	$ **2,231**	$ 3,449
Income from discontinued operations	**(93)**	(64)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	**(339)**	(925)
Net (gains) losses on extinguishment of debt	**340**	
Unrealized gains in earnings net	**(769)**	(3,425)
Equity in income from equity method investments, net of dividends or distributions	**(442)**	(225)
Depreciation and other amortization	**1,180**	1,215
Impairments of assets	**139**	687
Changes in operating assets and liabilities:		
Property casualty and life insurance reserves	**643**	271
Premiums and other receivables and payables net	**(474)**	(51)
Reinsurance assets and funds held under reinsurance treaties	**(2,035)**	(1,059)
Capitalization of deferred policy acquisition costs	**(1,422)**	(1,417)
Current and deferred income taxes net	**590**	1,003
Other, net	**(326)**	47
Total adjustments	**(2,915)**	(3,879)
Net cash used in operating activities continuing operations	**(777)**	(494)
Net cash provided by operating activities discontinued operations	**628**	588
Net cash provided by (used in) operating activities	**(149)**	94
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales or distribution of:		
Available for sale investments	**7,346**	10,749
Trading securities	**1,728**	3,080
Other invested assets	**1,740**	6,781
Maturities of fixed maturity securities available for sale	**5,617**	4,853
Principal payments received on and sales of mortgage and other loans receivable	**703**	709
Purchases of:		
Available for sale investments	**(15,290)**	(13,955)
Trading securities	**(822)**	(924)

Other invested assets	(1,269)	(1,196)
Mortgage and other loans receivable issued and purchased	(788)	(794)
Net change in restricted cash	(8)	(561)
Net change in short-term investments	5,721	1,480
Other, net	(291)	(463)
Net cash provided by investing activities continuing operations	4,387	9,759
Net cash provided by (used in) investing activities discontinued operations	(423)	222
Net cash provided by investing activities	3,964	9,981
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	3,262	3,510
Policyholder contract withdrawals	(4,458)	(3,930)
Issuance of long-term debt	131	2,230
Repayments of long-term debt	(2,861)	(1,994)
Repayment of Department of the Treasury SPV Preferred Interests		(8,636)
Purchase of Common Stock		(3,000)
Other, net	430	1,345
Net cash used in financing activities continuing operations	(3,496)	(10,475)
Net cash provided by (used in) financing activities discontinued operations	(222)	243
Net cash used in financing activities	(3,718)	(10,232)
Effect of exchange rate changes on cash	(36)	(2)
Net increase (decrease) in cash	61	(159)
Cash at beginning of period	1,151	1,474
Change in cash of businesses held for sale	15	
Cash at end of period	$ **1,227**	$ 1,315

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ITEM 1. / FINANCIAL STATEMENTS

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Three Months Ended March 31, *(in millions)*		2013		2012
Cash paid during the period for:				
Interest	**$**	**983**	$	939
Taxes	**$**	**103**	$	97
Non-cash investing/financing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**1,005**	$	1,100

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading 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 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 financial statements has been recorded. In the opinion of management, these condensed consolidated financial statements contain normal recurring adjustments, including eliminations of material intercompany accounts and transactions, necessary for a fair statement of the results presented herein.

Interim period operating results may not be indicative of the operating results for a full year. We evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2013 and prior to the issuance of these 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 on AIG's Condensed Consolidated Statement 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 on the Condensed Consolidated Balance Sheet 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 involve a significant degree of judgment. We consider the accounting policies that are most dependent on the application of estimates and assumptions to be those relating to items considered by management in 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;

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ITEM 1. / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

- recoverability of assets including reinsurance assets;
- estimated gross profits for investment-oriented products;
- impairment charges, including other-than-temporary impairments of financial instruments and goodwill impairments;
- 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 to first 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 the quantitative impairment test unless we determine that it is more likely than not the asset is impaired.

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

The standard is effective for fiscal years and interim periods beginning on or after January 1, 2013, and was applied 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.

Presentation of Comprehensive Income

In February 2013, the FASB issued guidance on the presentation requirements for items reclassified out of Accumulated other comprehensive income. We are required to disclose the effect of significant items reclassified out of Accumulated other comprehensive income on the respective line items of net income or provide a cross-reference to other disclosures currently required under GAAP.

The standard is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. 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 guidance should be applied retrospectively to all prior periods presented. We are assessing the effect of adopting this standard on our consolidated financial statements.

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 guidance about 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 guidance, the entire amount of the cumulative translation adjustment associated with the foreign entity would 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 on or after January 1, 2014, and will be applied prospectively. We do not expect adoption of the standard to have a material effect on our consolidated financial condition, results of operations or 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. Starting with 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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ITEM 1. / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

In addition, 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 - 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.

Prior to the first quarter of 2013, AIG Life and Retirement was presented as two operating segments: Life Insurance and Retirement Services. 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 periods 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.

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

Three Months Ended March 31,	2013		2012	
(in millions)	Total Revenues	Pre-tax Income from continuing operations	Total Revenues	Pre-tax Income from continuing operations
AIG Property Casualty				
Commercial Insurance	$ 5,773	$ 1,041	$ 5,893	$ 645
Consumer Insurance	3,506	153	3,612	234
Other	680	410	293	31
Total AIG Property Casualty	$ 9,959	$ 1,604	$ 9,798	$ 910
AIG Life and Retirement				
Retail	3,003	996	2,399	484
Institutional	1,737	574	1,503	378
Total AIG Life and Retirement	$ 4,740	$ 1,570	$ 3,902	$ 862
Other Operations				
Mortgage Guaranty	231	44	200	8
Global Capital Markets	273	227	160	88
Direct Investment Book	411	312	344	248
Retained Interests			3,047	3,047
Corporate & Other	402	(998)	262	(658)
Consolidation and Elimination	(9)	1	(10)	3
Total Other Operations	$ 1,308	$ (414)	$ 4,003	$ 2,736
AIG Consolidation and Elimination	(119)	72	(206)	(42)
Total AIG Consolidated	$ 15,888	$ 2,832	$ 17,497	$ 4,466

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

International Lease Finance Corporation Sale

On December 9, 2012, we entered into a definitive agreement with Jumbo Acquisition Limited for the sale of 80.1 percent of the common stock of ILFC for approximately $4.2 billion in cash (the ILFC Transaction). Jumbo Acquisition Limited may elect to purchase an additional 9.9 percent of the common stock of ILFC for $522.5 million (the Option) within ten days after approval of the ILFC Transaction and the Option by the Committee on Foreign Investment in the United States. We will retain a 10 percent ownership interest in ILFC if the Option is exercised, or a 19.9 percent ownership interest in ILFC if the Option is not exercised by Jumbo Acquisition Limited. If the Option is exercised, we expect our ownership at closing will be 9.4 percent due to immediate dilution from anticipated management issuances. The transaction is subject to required regulatory approvals and other customary closing conditions.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

We determined ILFC met the criteria for held for sale and discontinued operations accounting at March 31, 2013 and December 31, 2012. Depreciation and amortization expense is not recorded on the assets of a business after the business is classified as held for sale. At the closing of the transaction, AIG will return $1.1 billion to ILFC in connection with the termination of intercompany arrangements between AIG and ILFC.

The following table summarizes the components of assets and liabilities held-for-sale on the Condensed Consolidated Balance Sheet as of March 31, 2013 and December 31, 2012:

(in millions)	March 31, 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	**34,810**	34,468
Short-term investments	**2,103**	1,861
Cash	**48**	63
Premiums and other receivables, net of allowance	**291**	308
Other assets	**1,714**	1,864
Assets of businesses held for sale	**39,086**	38,682
Less: Loss accrual	**(7,270)**	(6,717)
Total assets held for sale	$ **31,816**	$ 31,965
Liabilities:		
Other liabilities	$ **3,050**	$ 3,043
Other long-term debt	**24,114**	24,323
Total liabilities held for sale	$ **27,164**	$ 27,366

The following table summarizes income from discontinued operations:

Three Months Ended March 31, *(in millions)*	2013	2012
Revenues:		
Aircraft leasing revenue	$ **1,078**	$ 1,156
Net realized capital gains	**(1)**	1
Other income	**(3)**	(5)
Total revenues	**1,074**	1,152
Benefits, claims and expenses, excluding Aircraft leasing expenses*	**388**	409

Aircraft leasing expenses		**90**		625
Income from discontinued operations		**596**		118
Gain (loss) on sale		**(436)**		20
Income from discontinued operations, before tax income tax expense		**160**		138
Income tax expense		**67**		74
Income from discontinued operations, net of income tax	**$**	**93**	$	64

We recorded a $4.4 billion after tax loss on the sale of ILFC for the year ended December 31, 2012. In the three month period ended March 31, 2013, we recorded an additional $553 million pre-tax loss on the sale of ILFC, largely offsetting ILFC operating results for the period. ILFC operating results did not include depreciation and amortization expense in the three month period ended March 31, 2013 as a result of its classification as held for sale.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

We also recognized in the first quarter of 2013 a $117 million pre-tax gain in connection with the sale of American Life Insurance Company (ALICO) as a result of a refund 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, Inc. (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 Sheet are measured and 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 that are 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:

March 31, 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	$	$ 3,496	$	$	$	$ 3,496
Obligations of states, municipalities and political subdivisions		34,092	1,019			35,111
Non-U.S. governments	690	24,667	18			25,375
Corporate debt		148,857	1,449			150,306
RMBS		24,030	12,096			36,126
CMBS		5,096	5,315			10,411
CDO/ABS		3,849	5,577			9,426
Total bonds available for sale	690	244,087	25,474			270,251
Bond trading securities:						
U.S. government and government sponsored entities	174	6,165				6,339
Obligations of states, municipalities and political subdivisions		183				183
Non-U.S. governments		2				2
Corporate debt		1,138				1,138
RMBS		1,239	730			1,969
CMBS		1,143	776			1,919
CDO/ABS		3,463	8,842			12,305
Total bond trading securities	174	13,333	10,348			23,855
Equity securities available for sale:						
Common stock	2,899	1	22			2,922
Preferred stock		33	49			82
Mutual funds	81	23				104
Total equity securities available for sale	2,980	57	71			3,108
Equity securities trading	614	82				696
Mortgage and other loans receivable		58				58
Other invested assets	129	1,721	5,467			7,317
Derivative assets:						
Interest rate contracts	5	4,869	961			5,835
Foreign exchange contracts		81				81
Equity contracts	132	51	69			252
Commodity contracts		146	1			147
Credit contracts			59			59
Other contracts			38			38

Counterparty netting and cash collateral				(2,234)	(888)	(3,122)
Total derivative assets	137	5,147	1,128	(2,234)	(888)	3,290
Short-term investments	218	6,194				6,412
Separate account assets	58,111	2,948				61,059
Other assets		694				694
Total	$ 63,053	$ 274,321	$ 42,488	$ (2,234)	$ (888)	$ 376,740
Liabilities:						
Policyholder contract deposits	$	$	$ 1,047	$	$	$ 1,047
Derivative liabilities:						
Interest rate contracts		5,190	205			5,395
Foreign exchange contracts		128				128
Equity contracts		109	3			112
Commodity contracts		148				148
Credit contracts			1,834			1,834
Other contracts		6	177			183
Counterparty netting and cash collateral				(2,234)	(1,855)	(4,089)
Total derivative liabilities		5,581	2,219	(2,234)	(1,855)	3,711
Long-term debt		7,256	407			7,663
Other liabilities	5	919				924
Total	$ 5	$ 13,756	$ 3,673	$ (2,234)	$ (1,855)	$ 13,345

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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	5,124			10,134
CDO/ABS		3,492	4,841			8,333
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	812			2,236
CDO/ABS		3,969	8,536			12,505
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 Sheet, and collateral received, not reflected in the Condensed Consolidated Balance Sheet, was $1.7 billion and $163 million, respectively, at March 31, 2013 and $1.9 billion and $299 million, respectively, at December 31, 2012.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 month period ended March 31, 2013, we transferred $239 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. For similar reasons, during the three month period ended March 31, 2013, we transferred $93 million of securities issued by the U.S. government and government-sponsored entities from Level 1 to Level 2. We had no material transfers from Level 2 to Level 1 during the three month period ended March 31, 2013.

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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 month periods ended March 31, 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 on the Condensed Consolidated Balance Sheet at March 31, 2013 and 2012:

(in millions)	Fair Value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated 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
March 31, 2013								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 1,024	$ 1	$ (5)	$ 136	$	$ (137)	$ 1,019	$
Non-U.S. governments	14	1		2	1		18	
Corporate debt	1,487	(4)	6	22	77	(139)	1,449	
RMBS	11,662	205	481	(262)	10		12,096	
CMBS	5,124	11	141	(75)	154	(40)	5,315	
CDO/ABS	4,841	24	76	639	180	(183)	5,577	
Total bonds available for sale	24,152	238	699	462	422	(499)	25,474	
Bond trading securities:								
RMBS	396	22		74	238		730	(17)
CMBS	812	12		(99)	159	(108)	776	(25)
CDO/ABS	8,536	284		(436)	486	(28)	8,842	82
Total bond trading securities	9,744	318		(461)	883	(136)	10,348	40
Equity securities available for sale:								
Common stock	24	9	(1)	(10)			22	
Preferred stock	44		5				49	

Total equity securities available for sale	68	9	4	(10)			71	
Other invested assets	5,389	61	(13)	(3)	127	(94)	5,467	
Total	$ 39,353	$ 626	$ 690	$ (12)	$ 1,432	$ (729)	$ 41,360	$ 40
Liabilities:								
Policyholder contract deposits	$ (1,257)	$ 205	$	$ 5	$	$	$ (1,047)	$ 28
Derivative liabilities, net:								
Interest rate contracts	732	11		13			756	(3)
Equity contracts	47	28		(7)	(2)		66	(12)
Commodity contracts	1	1		(1)			1	
Credit contracts	(1,991)	175		41			(1,775)	(214)
Other contracts	(162)	7		16			(139)	13
Total derivative liabilities, net	(1,373)	222		62	(2)		(1,091)	(216)
Long-term debt[(b)]	(344)	(80)		19	(2)		(407)	8
Total	$ (2,974)	$ 347	$	$ 86	$ (4)	$	$ (2,545)	$ (180)

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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	Accumulated 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
March 31, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 960	$ 1	$ 16	$ 100	$	$ (23)	$ 1,054	$
Non-U.S. governments	9		8	(2)			15	
Corporate debt	1,935	(16)	76	(3)	291	(960)	1,323	
RMBS	10,877	(70)	793	1,326	348	(34)	13,240	
CMBS	3,955	(69)	287	11	31	(42)	4,173	
CDO/ABS	4,220	14	177	70	438	(37)	4,882	
Total bonds available for sale	21,956	(140)	1,357	1,502	1,108	(1,096)	24,687	
Bond trading securities:								
Corporate debt	7			(2)			5	
RMBS	303	33		(19)		(3)	314	39
CMBS	554	33		(135)	32	(51)	433	85
CDO/ABS	8,432	1,621		(1,637)			8,416	2,122
Total bond trading securities	9,296	1,687		(1,793)	32	(54)	9,168	2,246
Equity securities available for sale:								
Common stock	57	14	(12)	(14)	5		50	
Preferred stock	99	2	8	8		(11)	106	
Total equity securities available for sale	156	16	(4)	(6)	5	(11)	156	
Equity securities trading	1						1	

Mortgage and other loans receivable								
Other invested assets	6,618	(147)	210	101	742	(338)	7,186	(4)
Total	$ 38,027	$ 1,416	$ 1,563	$ (196)	$ 1,887	$ (1,499)	$ 41,198	$ 2,242
Liabilities:								
Policyholder contract deposits	$ (918)	$ 139	$	$ (3)	$	$	$ (782)	$ (144)
Derivative liabilities, net:								
Interest rate contracts	785			(7)			778	(23)
Foreign exchange contracts	2			(2)				
Equity contracts	28	12		2	(2)		40	10
Commodity contracts	2						2	
Credit contracts	(3,273)	(143)		711			(2,705)	(525)
Other contracts	33	(410)	9	412	(81)		(37)	24
Total derivatives liabilities, net	(2,423)	(541)	9	1,116	(83)		(1,922)	(514)
Long-term debt[(b)]	(508)	(110)	(77)	114		6	(575)	(104)
Total	$ (3,849)	$ (512)	$ (68)	$ 1,227	$ (83)	$ 6	$ (3,279)	$ (762)

(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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ITEM 1. / NOTE 5. FAIR VALUE MEASUREMENTS

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 Statement of Income as follows:

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Total
March 31, 2013				
Bonds available for sale	**$ 210**	**$ 7**	**$ 21**	**$ 238**
Bond trading securities	**33**		**285**	**318**
Equity securities		**9**		**9**
Other invested assets	**47**	**(7)**	**21**	**61**
Policyholder contract deposits		**205**		**205**
Derivative liabilities, net		**22**	**200**	**222**
Other long-term debt			**(80)**	**(80)**
March 31, 2012				
Bonds available for sale	$ 231	$ (375)	$ 4	$ (140)
Bond trading securities	1,549		138	1,687
Equity securities		16		16
Other invested assets	(14)	(132)	(1)	(147)
Policyholder contract deposits		139		139
Derivative liabilities, net	(1)	19	(559)	(541)
Other long-term debt			(110)	(110)

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ITEM 1. / NOTE 5. FAIR VALUE MEASUREMENTS

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)]
March 31, 2013				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 158	$ (22)	$	$ 136
Non-U.S. governments	3		(1)	2
Corporate debt	97		(75)	22
RMBS	603	(231)	(634)	(262)
CMBS	373	(146)	(302)	(75)
CDO/ABS	798	(159)		639
Total bonds available for sale	2,032	(558)	(1,012)	462
Bond trading securities:				
RMBS	105		(31)	74
CMBS	19	(58)	(60)	(99)
CDO/ABS	188		(624)	(436)
Total bond trading securities	312	(58)	(715)	(461)
Equity securities	1	(10)	(1)	(10)
Other invested assets	243	(30)	(216)	(3)
Total assets	$ 2,588	$ (656)	$ (1,944)	$ (12)
Liabilities:				
Policyholder contract deposits	$	$ (6)	$ 11	$ 5
Derivative liabilities, net	3	(4)	63	62
Other long-term debt[(b)]			19	19
Total liabilities	$ 3	$ (10)	$ 93	$ 86
March 31, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 108	$ (8)	$	$ 100
Non-U.S. governments		(2)		(2)
Corporate debt	61	(1)	(63)	(3)
RMBS	1,912	(94)	(492)	1,326
CMBS	126	(64)	(51)	11
CDO/ABS	317	(4)	(243)	70

Total bonds available for sale		2,524		(173)		(849)		1,502
Bond trading securities:								
Corporate debt						(2)		(2)
RMBS						(19)		(19)
CMBS		113		(57)		(191)		(135)
CDO/ABS				(310)		(1,327)		(1,637)
Total bond trading securities		113		(367)		(1,539)		(1,793)
Equity securities		11		(14)		(3)		(6)
Other invested assets		266		(4)		(161)		101
Total assets	$	2,914	$	(558)	$	(2,552)	$	(196)
Liabilities:								
Policyholder contract deposits	$		$	(6)	$	3	$	(3)
Derivative liabilities, net		2				1,114		1,116
Other long-term debt[(b)]						114		114
Total liabilities	$	2	$	(6)	$	1,231	$	1,227

(a) There were no issuances during the three month periods ended March 31, 2013 and 2012.

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

ITEM 1. / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 March 31, 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 and as shown in the table above excludes $72 million of net losses related to assets and liabilities transferred into Level 3 during the three month period ended March 31, 2013, and includes $2 million of net gains related to assets and liabilities transferred out of Level 3 during the three month period ended March 31, 2013.

Transfers of Level 3 Assets

During the three month period ended March 31, 2013, transfers into Level 3 assets included certain residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), collateralized debt obligation (CDO)/asset-backed securities (ABS), and investments in certain hedge funds.

- The transfers of investments in certain RMBS, CMBS and CDO/ABS into Level 3 assets were due to decreases in market transparency and liquidity for certain individual security types.
- Certain hedge fund investments were transferred into Level 3 as a result of limited market activity due to fund-imposed redemption restrictions.

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 month period ended March 31, 2013, transfers out of Level 3 assets primarily related to certain investments in municipal securities, private placement corporate debt, CMBS, CDO/ABS and 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.
- 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 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 month period ended March 31, 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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ITEM 1. / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 March 31, 2013	Valuation Technique	Unobservable Input[a]	Range (Weighted Average)[a]
Assets:				
Corporate debt	$ 796	Discounted cash flow	Yield[b]	2.81% 9.59% (6.20%)
RMBS	11,241	Discounted cash flow	Constant prepayment rate[c]	0.00% 10.34% (4.84%)
			Loss severity[c]	41.70% 79.63% (60.66%)
			Constant default rate[c]	4.04% 13.20% (8.62%)
			Yield[c]	2.18% 7.66% (4.92%)
Certain CDO/ABS[d]	5,869	Discounted cash flow	Constant prepayment rate[c]	4.08% 7.78% (5.93%)
			Loss severity[c]	56.61% 67.23% (61.93%)
			Constant default rate[c]	6.42% 14.10% (10.41%)
			Yield[c]	7.04% 10.52% (8.78%)
Commercial mortgage backed securities	3,948	Discounted cash flow	Yield[b]	0.00% 17.12% (6.92%)
CDO/ABS Direct Investment Book	997	Binomial Expansion Technique (BET)	Recovery rate[b]	4% 63% (27%)
			Diversity score[b]	4 42 (14)
			Weighted average life[b]	1.28 9.76 years (4.99 years)
Liabilities:				
Policyholder contract deposits GMWB	1,047	Discounted cash flow	Equity implied volatility[b]	6.0% 39.0%
			Base lapse rates[b]	1.00% 40.0%
			Dynamic lapse rates[b]	0.2% 60.0%
			Mortality rates[b]	0.5% 40.0%
			Utilization rates[b]	0.5% 25.0%
Derivative Liabilities Credit contracts	1,324	BET	Recovery rates[b]	4% 36% (18%)
			Diversity score[b]	9 41 (13)
			Weighted average life[b]	5.05 9.72 years (5.93 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 $297 million of total fair value at March 31, 2013.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 volatility, mortality rates, lapse 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 have a directionally similar corresponding effect on 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.

		March 31, 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	$ **2,487**	$ **646**	$ 2,529	$ 669
Real Estate / Infrastructure	Investments in real estate properties and infrastructure positions, including power plants and other energy generating facilities	**263**	**51**	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	**150**	**16**	157	16
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	**185**	**39**	184	36
Other	Includes multi-strategy and mezzanine strategies	**123**	**184**	112	100
Total private equity funds		**3,208**	**936**	3,233	873
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**899**	**2**	788	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,405**		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	**470**		320	
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	**342**		316	
Other	Includes multi-strategy and relative value strategies	**55**		66	
Total hedge funds		**3,171**	**2**	2,808	2
Total		**$ 6,379**	**$ 938**	$ 6,041	$ 875

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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 March 31, 2013, assuming average original expected lives of 10 years for the funds, 63 percent of the total fair value using net asset value or its equivalent above would have expected remaining lives of less than three years, 35 percent between three and seven years and 2 percent between seven and 10 years.

At March 31, 2013, hedge fund investments included above are redeemable monthly (15 percent), quarterly (37 percent), semi-annually (26 percent) and annually (22 percent), with redemption notices ranging from one day to 180 days. More than 65 percent of these hedge fund investments require redemption notices of less than 90 days. Investments representing approximately 77 percent of the 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 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:

Three Months Ended March 31,	Gain (Loss)	
(in millions)	2013	2012
Assets:		
Mortgage and other loans receivable	$ 1	$ 22
Bonds and equity securities	376	644
Trading ML II interest		246
Trading ML III interest		1,252
Retained interest in AIA		1,795
Alternative Investments[(a)]	84	2
Other, including Short-term investments	3	2
Liabilities:		
Long-term debt[(b)]	9	(446)
Other liabilities	(4)	(48)
Total gain (loss)[(c)]	$ 469	$ 3,469

(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 operation gains or losses on instruments that were required to be carried at fair value. For instruments required to be carried at fair value, AIG recognized losses of $1 million for the three months ended March 31, 2013, and gains of $0.6 billion for the three months ended March 31, 2012, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets.

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.

During the three month periods ended March 31, 2013 and 2012, we recognized losses of $34 million and $558 million, 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 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.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

	March 31, 2013			December 31, 2012		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 58**	**$ 58**	**$**	$ 134	$ 141	$ (7)
Liabilities:						
Long-term debt*	**$ 7,663**	**$ 5,727**	**$ 1,936**	$ 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 March 31, 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 March 31,	
(in millions)	Level 1	Level 2	Level 3	Total	2013	2012
March 31, 2013						
Alternative investments	**$**	**$**	**$ 1,843**	**$ 1,843**	**$ 79**	$ 93
Other assets		**8**	**7**	**15**	**13**	8
Total	**$**	**$ 8**	**$ 1,850**	**$ 1,858**	**$ 92**	$ 101
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
March 31, 2013					
Assets:					
Mortgage and other loans receivable	**$**	**$ 572**	**$ 20,147**	**$ 20,719**	**$ 19,430**
Other invested assets		**57**	**3,746**	**3,803**	**4,927**
Short-term investments		**16,924**		**16,924**	**16,924**
Cash	**1,227**			**1,227**	**1,227**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts		**233**	**122,844**	**123,077**	**105,680**
Other liabilities		**4,239**	**1,626**	**5,865**	**5,866**
Long-term debt		**40,991**	**1,957**	**42,948**	**37,603**
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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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)]
March 31, 2013					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 3,194	$ 303	$ (1)	$ 3,496	$
Obligations of states, municipalities and political subdivisions	32,683	2,473	(45)	35,111	2
Non-U.S. governments	24,251	1,222	(98)	25,375	
Corporate debt	136,299	14,579	(572)	150,306	107
Mortgage-backed, asset-backed and collateralized:					
RMBS	32,568	3,777	(219)	36,126	1,708
CMBS	9,841	785	(215)	10,411	6
CDO/ABS	8,756	819	(149)	9,426	63
Total mortgage-backed, asset-backed and collateralized	51,165	5,381	(583)	55,963	1,777
Total bonds available for sale[(b)]	247,592	23,958	(1,299)	270,251	1,886
Equity securities available for sale:					
Common stock	1,382	1,559	(19)	2,922	
Preferred stock	55	27		82	
Mutual funds	92	12		104	
Total equity securities available for sale	1,529	1,598	(19)	3,108	
Total	$ 249,121	$ 25,556	$ (1,318)	$ 273,359	$ 1,886
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		9,699		811		(376)		10,134		(54)
CDO/ABS		7,740		765		(172)		8,333		57
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 March 31, 2013 and December 31, 2012, bonds available for sale held by us that were below investment grade or not rated totaled $30.7 billion and $29.6 billion, respectively.

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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
March 31, 2013						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 130	$ 1	$	$	$ 130	$ 1
Obligations of states, municipalities and political subdivisions	1,146	38	71	7	1,217	45
Non-U.S. governments	2,812	77	216	21	3,028	98
Corporate debt	13,205	374	2,465	198	15,670	572
RMBS	1,771	14	1,290	205	3,061	219
CMBS	1,524	33	1,227	182	2,751	215
CDO/ABS	563	5	1,387	144	1,950	149
Total bonds available for sale	21,151	542	6,656	757	27,807	1,299
Equity securities available for sale:						
Common stock	129	19			129	19
Total	$ 21,280	$ 561	$ 6,656	$ 757	$ 27,936	$ 1,318
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	406	11	1,595	365	2,001	376
CDO/ABS	391	1	1,510	171	1,901	172
Total bonds available for sale	12,277	272	8,551	1,124	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	$ 308	$ 8,569	$ 1,125	$ 21,096	$ 1,433

At March 31, 2013, we held 4,001 and 114 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 931 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 March 31, 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

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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:

March 31, 2013	Total Fixed Maturity Securities Available for Sale		Fixed Maturity Securities in a Loss Position Available for Sale	
(in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 11,697	$ 11,910	$ 647	$ 642
Due after one year through five years	51,101	54,428	3,516	3,441
Due after five years through ten years	72,503	79,391	6,958	6,800
Due after ten years	61,126	68,559	9,640	9,162
Mortgage-backed, asset-backed and collateralized	51,165	55,963	8,345	7,762
Total	$ 247,592	$ 270,251	$ 29,106	$ 27,807

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 March 31,			
	2013		2012	
(in millions)	Gross Realized Gains	Gross Realized Losses	**Gross Realized Gains**	**Gross Realized Losses**
Fixed maturity securities	**$ 371**	**$ 71**	$ 490	$ 16
Equity securities	**37**	**3**	451	3
Total	**$ 408**	**$ 74**	$ 941	$ 19

For the three month periods ended March 31, 2013 and 2012, the aggregate fair value of available for sale securities sold was $7.0 billion and $10.9 billion, respectively, which resulted in net realized capital gains of $0.3 billion and $0.9 billion, respectively.

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Trading Securities

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

	March 31, 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	$ 6,339	26%	$ 6,794	27%
Obligations of states, territories and political subdivisions	183	1		
Non-U.S. governments	2		2	
Corporate debt	1,138	5	1,320	5
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,969	8	1,727	7
CMBS	1,919	8	2,236	9
CDO/ABS and other collateralized*	12,297	50	12,497	50
Total mortgage-backed, asset-backed and collateralized	16,185	66	16,460	66
Other	8		8	
Total fixed maturity securities	23,855	98	24,584	98
Equity securities	696	2	662	2
Total	$ 24,551	100%	$ 25,246	100%

* Includes $0.8 billion of U.S. Government agency backed ABS.

Net Investment Income

The following table presents the components of Net investment income:

Three Months Ended March 31, *(in millions)*	2013	2012
Fixed maturity securities, including short-term investments	$ 3,045	$ 3,104
Change in fair value of ML II		246
Change in fair value of ML III		1,252

Change in fair value of AIA securities including realized gain		1,795
Equity securities	**37**	11
Interest on mortgage and other loans	**280**	265
Alternative investments*	**866**	505
Real estate	**31**	26
Other investments	**53**	23
Total investment income	**4,312**	7,227
Investment expenses	**148**	122
Net investment income	**$ 4,164**	$ 7,105

* 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):

Three Months Ended March 31, *(in millions)*	2013	2012
Sales of fixed maturity securities	$ **300**	$ 474
Sales of equity securities	**34**	448
Other-than-temporary impairments:		
Severity	**(2)**	(4)
Change in intent	**(3)**	(20)
Foreign currency declines		(5)
Issuer-specific credit events	**(63)**	(586)
Adverse projected cash flows	**(6)**	(3)
Provision for loan losses	**(3)**	2
Foreign exchange transactions	**329**	(232)
Derivative instruments	**(271)**	(262)
Other	**(15)**	(63)
Net realized capital gains (losses)	$ **300**	$ (251)

Change in Unrealized Appreciation of Investments

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

Three Months Ended March 31, *(in millions)*	2013	2012
Increase (decrease) in unrealized appreciation of investments:		
Fixed maturities	$ **(1,152)**	$ 2,987
Equity securities	**7**	(560)
Other investments	**(48)**	284
Total Increase (decrease) in unrealized appreciation of investments	$ **(1,193)**	$ 2,711

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:

Three Months Ended March 31, *(in millions)*	2013	2012
Balance, beginning of period	**$ 5,164**	$ 6,504
Increases due to:		
Credit impairments on new securities subject to impairment losses	**17**	137
Additional credit impairments on previously impaired securities	**18**	307
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(391)**	(270)
Accretion on securities previously impaired due to credit*	**(205)**	(222)
Other		8
Balance, end of period	**$ 4,603**	$ 6,464

* 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.

ITEM 1. / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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)	$ 19,807
Cash flows expected to be collected*	15,543
Recorded investment in acquired securities	10,011

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

(in millions)	March 31, 2013	December 31, 2012
Outstanding principal balance	**$ 12,257**	$ 11,791
Amortized cost	**8,122**	7,718
Fair value	**9,551**	8,823

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

	Three Months Ended March 31,	
(in millions)	2013	2012
Balance, beginning of period	**$ 4,766**	$ 4,135
Newly purchased PCI securities	**345**	1,222
Disposals	**(60)**	(47)
Accretion	**(160)**	(168)
Effect of changes in interest rate indices	**84**	(28)
Net reclassification from non-accretable difference, including effects of prepayments	**139**	32
Balance, end of period	**$ 5,114**	$ 5,146

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 this 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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ITEM 1. / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

(in millions)	March 31, 2013	December 31, 2012
Securities available for sale	$ **5,289**	$ 8,180
Trading securities	**2,809**	2,985

We also enter into agreements in which securities are purchased by us 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 this collateral received.

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

(in millions)	March 31, 2013	December 31, 2012
Securities collateral pledged to us	$ **10,974**	$ 11,039
Amount repledged by us	**18**	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 $8.9 billion at both March 31, 2013 and December 31, 2012.

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. These subsidiaries owned an aggregate of $60 million and $84 million of stock in FHLBs at March 31, 2013 and December 31, 2012, respectively. To the extent an AIG subsidiary borrows from the FHLB, its ownership interest in the stock of FHLBs will be pledged to the FHLB. In addition, our subsidiaries have pledged securities available for sale with a fair value of $76 million and $341 million at March 31, 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 $4.4 billion at both March 31, 2013 and December 31, 2012. 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)		March 31, 2013		December 31, 2012
Commercial mortgages*	$	**14,170**	$	13,788
Life insurance policy loans		2,900		2,952
Commercial loans, other loans and notes receivable		2,803		3,147
Total mortgage and other loans receivable		19,873		19,887
Allowance for losses		(385)		(405)
Mortgage and other loans receivable, net	$	**19,488**	$	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 21 percent and 18 percent at March 31, 2013, respectively, and approximately 22 percent and 15 percent at December 31, 2012, respectively). Over 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:

March 31, 2013 *(dollars in millions)*	Number of Loans		Apartments		Offices		Retail		Industrial		Hotel		Others		Total	Percent of Total $
							Class									
Credit Quality Indicator:																
In good standing	989	$	1,948	$	4,563	$	2,646	$	1,769	$	1,141	$	1,684	$	13,751	97%
Restructured[(a)]	8		50		207		7		1				21		286	2
90 days or less delinquent	2															
>90 days delinquent or in process of foreclosure	8				30		27						76		133	1
Total[(b)]	1,007	$	1,998	$	4,800	$	2,680	$	1,770	$	1,141	$	1,781	$	14,170	100%
Valuation allowance		$	4	$	73	$	26	$	19	$	1	$	42	$	165	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:

	2013			2012		
Three Months Ended March 31, *(in millions)*	Commercial Mortgages	Other Loans	Total	Commercial Mortgages	Other Loans	Total
Allowance, beginning of year	$ 159	$ 246	$ 405	$ 305	$ 435	$ 740
Loans charged off	(1)	(22)	(23)	(6)	(5)	(11)
Recoveries of loans previously charged off		1	1	2		2
Net charge-offs	(1)	(21)	(22)	(4)	(5)	(9)
Provision for loan losses	7	(4)	3	(5)	7	2
Other		(1)	(1)		(1)	(1)
Activity of discontinued operations					(24)	(24)
Allowance, end of period	$ 165*	$ 220	$ 385	$ 296*	$ 412	$ 708

* Of the total, $53 million and $60 million relates to individually assessed credit losses on $208 million and $442 million of commercial mortgage loans at March 31, 2013 and 2012, respectively.

No significant loans were modified in a troubled debt restructuring during the three month periods ended March 31, 2013 and 2012.

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ITEM 1. / NOTE 8. VARIABLE INTEREST ENTITIES

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 entity'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 March 31, 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)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
ALICO SPV	$ **0.6**	$ 0.6	$ **0.1**	$ 0.1
Real estate and investment funds[b]	**1.5**	1.4	**0.2**	0.2
Securitization vehicles	**3.0**	2.4	**0.1**	
Structured investment vehicles	**1.7**	1.7	**0.2**	0.1
Affordable housing partnerships	**2.3**	2.3	**0.3**	0.2
Other	**3.3**	3.3	**1.2**	1.3
Total	$ **12.4**	$ 11.7	$ **2.1**	$ 1.9

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

(b) At March 31, 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
March 31, 2013				
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**
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 Sheet as follows:

	Consolidated VIEs		Unconsolidated VIEs	
(in billions)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Assets:				
Available for sale securities	**$ 3.6**	$ 2.9	**$**	$
Trading securities	**1.0**	1.0	**0.1**	0.1
Mortgage and other loans receivable	**0.3**	0.4		
Other invested assets	**4.3**	4.4	**2.3**	2.3
Other asset accounts	**3.2**	3.0		
Total assets	**$ 12.4**	$ 11.7	**$ 2.4**	$ 2.4
Liabilities:				
Long-term debt	**$ 0.8**	$ 0.7	**$**	$
Other liability accounts	**1.3**	1.2		

Total liabilities	$	**2.1**	$	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:

	March 31, 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	$ **344**	$ **5**	$ **298**	$ **25**	$	$	$	$
Derivatives not designated as hedging instruments:								
Interest rate contracts[b]	**63,239**	**5,835**	**58,739**	**5,395**	63,463	6,479	63,482	5,806
Foreign exchange contracts	**3,275**	**76**	**2,825**	**103**	8,325	104	10,168	174
Equity contracts[c]	**5,596**	**252**	**24,714**	**1,160**	4,990	221	25,626	1,377
Commodity contracts	**620**	**147**	**615**	**148**	625	145	622	146
Credit contracts	**70**	**59**	**15,763**	**1,834**	70	60	16,244	2,051
Other contracts[d]	**20,796**	**38**	**1,385**	**183**	20,449	38	1,488	206
Total derivatives not designated as hedging instruments	**93,596**	**6,407**	**104,041**	**8,823**	97,922	7,047	117,630	9,760
Total derivatives, gross	$ **93,940**	$ **6,412**	$ **104,339**	$ **8,848**	$ 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 values of derivative liabilities include $22 billion and $1 billion, respectively, at March 31, 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 Sheet.

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

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

	March 31, 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	$ 61,763	$ 4,445	$ 60,355	$ 4,966	$ 59,854	$ 4,725	$ 66,717	$ 5,506
AIG Markets	6,893	1,083	13,621	1,783	14,028	1,308	18,774	1,818
Total Global Capital Markets derivatives	68,656	5,528	73,976	6,749	73,882	6,033	85,491	7,324
Non-Global Capital Markets derivatives[(a)]	25,284	884	30,363	2,099	24,040	1,014	32,139	2,436
Total derivatives, gross	$ 93,940	6,412	$ 104,339	8,848	$ 97,922	7,047	$ 117,630	9,760
Counterparty netting[(b)]		(2,234)		(2,234)		(2,467)		(2,467)
Cash collateral[(c)]		(888)		(1,855)		(909)		(1,976)
Total derivatives, net		3,290		4,759		3,671		5,317
Less: Bifurcated embedded derivatives				1,048				1,256
Total derivatives on consolidated balance sheet		$ 3,290		$ 3,711		$ 3,671		$ 4,061

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

(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 in most cases under International Swaps and Derivatives Association, Inc. (ISDA) agreements. Many of the ISDA agreements also include Credit Support Annex (CSA) provisions, which generally provide for collateral postings at various ratings and threshold levels.

Collateral posted by us to third parties for derivative transactions was $4.1 billion and $4.5 billion at March 31, 2013 and December 31, 2012, respectively. This collateral can generally be repledged or resold by the counterparties. Collateral obtained by us from third parties for derivative transactions was $1.2 billion and $1.4 billion at March 31, 2013 and December 31, 2012, respectively. We generally can repledge or resell this collateral.

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 Sheet 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-month period ended March 31, 2013 and 2012 we recognized gains (losses) of $130 million and $(91) 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.

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

Three Months Ended March 31,		
(in millions)	**2013**	**2012**

Interest rate contracts:[a]		
Hedged items[b]	**$ 30**	$ 30
Foreign exchange contracts:[a]		
Derivatives	**(5)**	(2)
Hedged items	**4**	2
Amount excluded from effectiveness testing	**(1)**	

(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 (losses).

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

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ITEM 1. / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 Statement of Income:

Three Months Ended March 31,	Gains (Losses) Recognized in Earnings	
(in millions)	2013	2012
By Derivative Type:		
Interest rate contracts[a]	$ **(216)**	$ (586)
Foreign exchange contracts	**155**	69
Equity contracts[b]	**44**	(188)
Commodity contracts		(1)
Credit contracts	**175**	151
Other contracts	**44**	30
Total	$ **202**	$ (525)
By Classification:		
Policy fees	$ **45**	$ 36
Net investment income	**24**	1
Net realized capital gains (losses)	**(276)**	(290)
Other income (losses)	**412**	(272)
Policyholder benefits and claims incurred	**(3)**	
Total	$ **202**	$ (525)

(a) Includes cross currency swaps.

(b) Includes embedded derivative gains of $256 million and $175 million for the three month periods ended March 31, 2013 and 2012, respectively.

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 March 31, 2013, GCM has entered into credit derivative transactions with respect to $65 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."

ITEM 1. / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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][c]		Unrealized Market Valuation Gain[c]	
					Three Months Ended March 31,	
(in millions)	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012	2013	2012
Regulatory Capital:						
Prime residential mortgages	$ **23**	$ 97	$	$	$	$
Other						6
Total	**23**	97				6
Arbitrage:						
Multi-sector CDOs[d]	**3,743**	3,944	**1,715**	1,910	**155**	126
Corporate debt/CLOs[e]	**11,631**	11,832	**44**	60	**16**	17
Total	**15,374**	15,776	**1,759**	1,970	**171**	143
Mezzanine tranches						(9)
Total	$ **15,397**	$ 15,873	$ **1,759**	$ 1,970	$ **171**	$ 140

(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 March 31, 2013 was due primarily to foreign exchange rate gains of $222 million, amortization of $190 million and terminations of $59 million.

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

(c) Includes credit valuation adjustment losses of $2 million and $26 million for the three-month periods ended March 31, 2013 and 2012, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

(d) During the three-month period ended March 31, 2013, we paid $40 million to counterparties with respect to multi-sector CDOs. Upon payment, a $40 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 $3.3 billion and $3.4 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2013 and December 31, 2012, respectively. Collateral postings with regards to multi-sector CDOs were $1.4 billion and $1.6 billion at March 31, 2013 and December 31, 2012, respectively.

(e) Corporate debt/CLOs include $1.1 billion and $1.2 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2013 and December 31, 2012, respectively. Collateral postings with regards to corporate debt/CLOs were $398 million and $420 million at March 31, 2013 and December 31, 2012, respectively.

The expected weighted average maturity of the super senior credit derivative portfolios as of March 31, 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

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purchased. At March 31, 2013, the net notional amount of these written CDS contracts was $399 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 $349 million represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 4 years. At March 31, 2013, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was $44 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 credit support annexes (CSAs) that provide for collateral postings at various ratings and threshold levels. At March 31, 2013, collateral posted by us under these contracts was $59 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.

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 March 31, 2013, was approximately $3.6 billion. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2013, was $3.9 billion.

We estimate that at March 31, 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 $90 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 $228 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 March 31, 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.

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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 Sheet. The fair value of these hybrid securities was $6.6 billion at March 31, 2013. These securities have a current par amount of $14.6 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 certain of our subsidiaries. In addition, AIG guarantees various obligations of certain subsidiaries.

We recorded an increase in our estimated litigation liability of approximately $1.3 million for the three-month period ended March 31, 2013 based on developments in several actions.

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. AIG and our subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. In our insurance operations (including UGC), 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).

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On May 19, 2009, 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 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 reduces 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, and August 8, 2012, four separate, though similar, securities actions were brought against AIG and certain directors and officers of AIG and AIGFP by the Kuwait Investment Authority, various Oppenheimer Funds, eight foreign funds and investment entities led by the British Coal Staff Superannuation Scheme, and Pacific Life Funds and Pacific Select Fund. Discovery in these actions is stayed 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, (ii) the preliminary approval of any settlement in the Consolidated 2008 Securities Litigation, or (iii) June 28, 2013, unless the Court orders an extension. As of May 2, 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.

As of May 2, 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 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

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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 May 2, 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 all others similarly situated 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.

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.

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In both of the actions commenced by SICO, the only claims naming AIG as a party (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 demand was excused and wrongfully refused. On April 5, 2013, AIG and the United States filed motions to dismiss such claims in SICO's second amended complaint.

On March 11, 2013, the Court of Federal Claims in the SICO Treasury Action granted SICO's motion for class certification of two classes: (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.

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 under the FRBNY Credit Facility from AIG in connection with the SICO New York Action 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 March 31, 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 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

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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). Defendants are seeking reconsideration of the Court's ruling on that matter and others. 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. As of May 2, 2013, no trial date has been set. 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 amended complaint alleges 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 complaint seeks 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 amended complaints were initially 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 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 an amended complaint. As of May 1, 2013, the Relators have not filed an amended complaint, nor have they specified an amount of alleged damages. As a result, we are unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

2006 Regulatory Settlements and Related Regulatory Matters

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the Securities and Exchange Commission (SEC), the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers' compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to

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contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately $1.64 billion, $225 million of which represented fines and penalties.

In addition to the escrowed funds, $800 million was deposited into, and subsequently disbursed by, a fund under the supervision of the SEC, to resolve claims asserted against AIG by investors, including the securities class action and shareholder lawsuits described below.

A portion of the total $1.64 billion originally placed in escrow was designated to satisfy certain regulatory and litigation liabilities related to workers' compensation premium reporting issues. The original workers' compensation escrow amount was approximately $338 million and was placed in an account established as part of the 2006 New York regulatory settlement and referred to as the Workers' Compensation Fund. Additional money was placed into escrow accounts as a result of subsequent litigation and regulatory settlements bringing the total workers' compensation escrow amount to approximately $597 million. Approximately $147 million was released from the workers' compensation escrow accounts in satisfaction of fines, penalties and premium tax obligations, which were imposed pursuant to a December 17, 2010 regulatory settlement agreement relating to workers' compensation premium reporting issues that was deemed final and effective on May 29, 2012. Following this disbursement, approximately $450 million remains in escrow and is specifically designated to satisfy class action liabilities related to workers' compensation premium reporting issues. This amount is included in Other assets at March 31, 2013.

Litigation Related to the Matters Underlying the 2006 Regulatory Settlements

AIG and certain present and former directors and officers of AIG have been named in various actions related to the matters underlying the 2006 Regulatory Settlements. These actions are described below.

The Consolidated 2004 Securities Litigation. Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as In re American International Group, Inc. Securities Litigation (the Consolidated 2004 Securities Litigation). Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the Consolidated 2004 Securities Litigation is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG's publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as C.V. Starr & Co., Inc. (Starr), SICO, General Reinsurance Corporation, and PricewaterhouseCoopers, LLP, among others. The lead plaintiff alleges, among other things, that AIG: (i) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (ii) concealed that it used "income smoothing" products and other techniques to inflate its earnings; (iii) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (iv) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that Maurice R. Greenberg, AIG's former Chief Executive Officer, manipulated our stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 20(a) and 20A of the Exchange Act.

On July 14, 2010, AIG approved the terms of a settlement (the Settlement) with lead plaintiffs. The Settlement is conditioned on, among other things, court approval and a minimum level of shareholder participation. Under the terms of the Settlement, if consummated, AIG would pay an aggregate of $725 million. Only two shareholders objected to the Settlement, and 25 shareholders claiming to hold less than 1.5 percent of AIG's outstanding shares at the end of the class period submitted timely and valid requests to opt out of the class. Of those 25 shareholders, seven are investment funds controlled by the same investment group, and that investment group is the only opt-out who held more than 1,000 shares at the end of the class period. By order dated February 2, 2012, the District Court granted lead plaintiffs' motion for final approval of the Settlement. AIG has fully funded the amount of the Settlement into an escrow account.

On January 23, 2012, AIG and the Florida pension funds, who had brought a separate securities fraud action, executed a settlement agreement under which AIG paid $4 million.

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On February 17, 2012 and March 6, 2012, two objectors appealed the final approval of the Settlement. On September 27, 2012, the two objectors withdrew their appeals with prejudice.

The Multi-District Litigation. Commencing in 2004, policyholders brought multiple federal antitrust and Racketeer Influenced and Corrupt Organizations Act (RICO) class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in one or more broad conspiracies to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that Court in two parallel actions, In re Insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefits Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-District Litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges that defendants engaged in a number of overlapping "broker-centered" conspiracies to allocate customers through the payment of contingent commissions to brokers and through purported "bid-rigging" practices. It also alleges that the insurer and broker defendants participated in a "global" conspiracy not to disclose to policyholders the payment of contingent commissions. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations of customer allocation through steering and bid-rigging made in the Commercial Complaint.

On August 16, 2010, the United States Court of Appeals for the Third Circuit (the Third Circuit) affirmed the dismissal of the Employee Benefits Complaint in its entirety, affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. On March 30, 2012, the District Court granted final approval of a settlement between AIG and certain other defendants on the one hand, and class plaintiffs on the other, which settled the claims asserted against those defendants in the Commercial Complaint. Pursuant to the settlement, AIG will pay approximately $7 million of a total aggregate settlement amount of approximately $37 million. On April 27, 2012, notices of appeal of the District Court order granting final approval were filed in the Third Circuit. As of December 5, 2012, the Third Circuit had dismissed all appeals from the District Court order granting final approval of the settlement. On February 15, 2013, the District Court issued an order authorizing distribution of the settlement fund to the class members.

A number of complaints making allegations similar to those in the Multi-District Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-District Litigation. Two consolidated actions naming AIG defendants are still pending in the District of New Jersey. In the consolidated action *The Heritage Corp. of South Florida v. National Union Fire Ins. Co. (Heritage)*, an individual plaintiff alleges damages "in excess of $75,000." Because the plaintiff has not actively pursued its claim since the settlement of the class action described in the preceding paragraph, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Heritage* litigation. The parties in *Avery Dennison Corp. v. Marsh & McLennan Companies, Inc. (Avery)*, the other remaining consolidated action, entered into a settlement agreement on April 4, 2013.

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Finally, the AIG defendants have settled the four state court actions filed in Florida, New Jersey, Texas, and Kansas state courts, where plaintiffs had made similar allegations as those asserted in the Multi-District Litigation.

Workers' Compensation Premium Reporting. On May 24, 2007, the National Council on Compensation Insurance (NCCI), on behalf of the participating members of the National Workers' Compensation Reinsurance Pool (the NWCRP), filed a lawsuit in the United States District Court for the Northern District of Illinois (the Northern District of Illinois) against us with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint alleged claims for violations of RICO, breach of contract, fraud and related state law claims arising out of our alleged underpayment of these assessments between 1970 and the present and sought damages purportedly in excess of $1 billion.

On April 1, 2009, Safeco Insurance Company of America (Safeco) and Ohio Casualty Insurance Company (Ohio Casualty) filed a complaint in the Northern District of Illinois, on behalf of a purported class of all NWCRP participant members, against AIG and certain of its subsidiaries with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint was styled as an "alternative complaint," should the Northern District of Illinois grant our motion to dismiss the NCCI lawsuit for lack of subject-matter jurisdiction, which motion to dismiss was ultimately granted on August 23, 2009. The allegations in the class action complaint are substantially similar to those filed by the NWCRP.

On February 28, 2012, the Northern District of Illinois entered a final order and judgment approving a class action settlement between us and a group of intervening plaintiffs, made up of seven participating members of the NWCRP, which would require AIG to pay $450 million to satisfy all liabilities to the class members arising out of the workers' compensation premium reporting issues, a portion of which would be funded out of the remaining amount held in the Workers' Compensation Fund. Liberty Mutual filed papers in opposition to approval of the proposed settlement and in opposition to certification of a settlement class, in which it alleged our actual exposure, should the class action continue through judgment, to be in excess of $3 billion. We dispute this allegation. Liberty Mutual and its subsidiaries Safeco and Ohio Casualty subsequently appealed the Northern District of Illinois' final order and judgment to the United States Court of Appeals for the Seventh Circuit (the Seventh Circuit). On January 10, 2013, AIG and Liberty Mutual entered into a settlement under which Liberty Mutual, Safeco and Ohio Casualty agreed voluntarily to withdraw their appeals, and AIG, the Liberty Mutual parties and the settlement class plaintiffs submitted an agreed stipulation of dismissal to the Seventh Circuit. On March 25, 2013, the Seventh Circuit dismissed the appeal.

The $450 million settlement amount, which is currently held in escrow pending administration of the class-action settlement, was funded in part from the approximately $191 million remaining in the Workers' Compensation Fund. As of March 31, 2013, we had an accrued liability equal to the amounts payable under the settlement.

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.

ITEM 1. / NOTE 10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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 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.

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ITEM 1. / NOTE 10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

Commitments

Flight Equipment Related to Business Held for Sale

At March 31, 2013, ILFC had committed to purchase 243 new aircraft with aggregate estimated total remaining payments of approximately $17.7 billion, including 18 aircraft through sale-leaseback transactions with airlines deliverable from 2013 through 2019. ILFC had also committed to purchase four used aircraft and nine new spare engines. ILFC also has the right to purchase an additional 50 Airbus A320neo family narrowbody 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 and will not be retained by AIG upon closing of the sale. 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, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $2.2 billion at March 31, 2013.

Guarantees

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 AIG Markets, Inc. (AIG Markets) arising from transactions entered into by AIGFP and 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 March 31, 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

ITEM 1. / NOTE 10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

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 Sheet.

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, as of March 31, 2013, approximately $567 million of proceeds from the sale of ALICO were on deposit in an escrow arrangement. On May 1, 2013, approximately $547 million was released to us from this escrow.

Other

See Note 7 for commitments and guarantees associated with VIEs.

See Note 8 for disclosures about derivatives.

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

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ITEM 1. / NOTE 11. TOTAL EQUITY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

11. TOTAL EQUITY

Shares Outstanding

The following table presents a rollforward of outstanding shares:

	Common Stock Issued	Treasury Stock	Outstanding Shares
Three Months Ended March 31, 2013			
Shares, beginning of year	1,906,611,680	(430,289,745)	1,476,321,935
Issuances	616	22,612	23,228
Shares, end of period	1,906,612,296	(430,267,133)	1,476,345,163

Dividends

Payment of future dividends to our shareholders depends in part on the regulatory framework that will ultimately be applicable to us, including our status as a savings and loan holding company under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and whether we are determined to be a non-bank systemically important financial institution (SIFI). 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 may deem relevant. We did not pay any cash dividends in the first quarter 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.

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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 of investments	414	(1,607)				(1,193)
Change in deferred acquisition costs adjustment and other	(2)	(309)				(311)
Change in future policy benefits	13	411				424
Change in foreign currency translation adjustments			(293)			(293)
Net actuarial gain					57	57
Prior service credit					(14)	(14)
Change in deferred tax asset (liability)	(143)	717	20		1	595
Total other comprehensive income (loss)	282	(788)	(273)		44	(735)
Noncontrolling interests		(1)	1			
Balance, March 31, 2013, net of tax	**$ 857**	**$ 12,659**	**$ (677)**	**$**	**$ (1,000)**	**$ 11,839**

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-month periods ended March 31, 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 March 31, 2013						
Unrealized change arising during period	**$ 474**	**$ (1,278)**	**$ (293)**	**$**	**$ 18**	**$ (1,079)**
Less: Reclassification adjustments included in net income	**49**	**227**			**(25)**	**251**
Total other comprehensive income (loss), before income tax expense (benefit)	**425**	**(1,505)**	**(293)**		**43**	**(1,330)**
Less: Income tax expense (benefit)	**143**	**(717)**	**(20)**		**(1)**	**(595)**
Total other comprehensive income (loss), net of income tax expense (benefit)	**$ 282**	**$ (788)**	**$ (273)**	**$**	**$ 44**	**$ (735)**
Three Months Ended March 31, 2012						
Unrealized change arising during period	$ 1,001	$ 2,323	$ 87	$ (1)	$	$ 3,410
Less: Reclassification adjustments included in net income	(2)	960		(5)	(29)	924
Total other comprehensive income, before income tax expense	1,003	1,363	87	4	29	2,486
Less: Income tax expense (benefit)	390	382	(4)	(18)	11	761
Total other comprehensive income, net of income tax expense (benefit)	$ 613	$ 981	$ 91	$ 22	$ 18	$ 1,725

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 Statement of Income:

Three Months Ended March 31, 2013 *(in millions)*	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Condensed Consolidated Statement of Income
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were recognized		
Investments	$ 49	Other realized capital gains
Unrealized appreciation (depreciation) of all other investments		
Investments	286	Other realized capital gains
Deferred acquisition costs adjustment	43	Amortization of deferred acquisition costs
Future policy benefits	(102)	Policyholder benefits and claims incurred
Total	227	
Change in retirement plan liabilities adjustment		
Prior-service costs	12	*
Actuarial gains/(losses)	(37)	*
Total	(25)	
Total reclassifications for the period	$ 251	

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

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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 non-controlling interests:

	Redeemable Noncontrolling interests			
(in millions)	Held by Department of Treasury	Other	Total	Non-redeemable Noncontrolling interests
Three Months Ended March 31, 2013				
Balance, beginning of year	$	$ 334	$ 334	$ 667
Contributions from noncontrolling interests		22	22	8
Distributions from noncontrolling interests		(17)	(17)	