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

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

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

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

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

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

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

As of April 25, 2013, there were 1,476,345,165 shares outstanding of the registrant's common stock.

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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.

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

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.

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.

ITEM 1. / NOTE 5. FAIR VALUE MEASUREMENTS

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.

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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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.

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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.

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	Class: Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total $
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:

Three Months Ended March 31, *(in millions)*	**2013** Commercial Mortgages	Other Loans	Total	**2012** 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					
		Total VIE		On-Balance		Off-Balance		
(in billions)		Assets		Sheet		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			
		March 31,		December 31,		March 31,		December 31,
(in billions)		2013		2012		2013		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