

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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-2592361

(I.R.S. Employer
Identification No.)

180 Maiden Lane, New York, New York

(Address of principal executive offices)

10038

(Zip Code)

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

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

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

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a
smaller reporting
company)

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

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

AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED
JUNE 30, 2013
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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. / FINANCIAL STATEMENTS****AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. / FINANCIAL STATEMENTS****AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (unaudited)**

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. / FINANCIAL STATEMENTS****AMERICAN INTERNATIONAL GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)**

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. / FINANCIAL STATEMENTS****AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (unaudited)**

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**ITEM 1. / FINANCIAL STATEMENTS****AMERICAN INTERNATIONAL GROUP, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)****Six Months Ended June 30,**
(in millions)

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

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

Cash paid during the period for:

Interest	\$ 2,408	\$ 2,088
Taxes	\$ 209	\$ 206

Non-cash investing/financing activities:

Interest credited to policyholder contract deposits included in financing activities	\$ 1,980	\$ 2,186
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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 (NYSE: AIG) and the Tokyo Stock Exchange. Unless the context indicates otherwise, the terms "AIG," "we," "us" or "our" mean American International Group, Inc. and its consolidated subsidiaries and the term "AIG Parent" means American International Group, Inc. and not any of its consolidated subsidiaries.

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

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

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

Presentation Changes

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

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

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

Use of Estimates

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

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

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

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

recoverability of assets, including reinsurance assets;

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ITEM 1 / NOTE 1. BASIS OF PRESENTATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

estimated gross profits for investment-oriented products;

other-than-temporary impairments of financial instruments;

liabilities for legal contingencies; and

fair value measurements of certain financial assets and liabilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards Adopted During 2013

Testing Indefinite-Lived Intangible Assets for Impairment

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

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

Disclosures about Offsetting Assets and Liabilities

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

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

Reporting of Amounts in Comprehensive Income

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

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

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ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Future Application of Accounting Standards

Certain Obligations Resulting from Joint and Several Liability Arrangements

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

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

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

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

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

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

Investment Company Guidance

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

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

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ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Presentation of Unrecognized Tax Benefits

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

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

3. SEGMENT INFORMATION

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

AIG Property Casualty Investment Income Allocation

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

AIG Life and Retirement Operating Segment Change

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

Table of Contents**ITEM 1 / NOTE 3. SEGMENT INFORMATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

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

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

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

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

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Total AIG Consolidated	\$	17,315	\$	3,147	\$	16,221	\$	1,669
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Six Months Ended June 30, (in millions)	2013		2012	
	Total Revenues	Pre-tax Income (Loss) from continuing operations	Total Revenues	Pre-tax Income (Loss) from continuing operations
AIG Property Casualty				
Commercial Insurance	\$ 11,469	\$ 1,576	\$ 11,944	\$ 1,390
Consumer Insurance	6,853	244	7,176	426
Other	1,403	952	698	55
Total AIG Property Casualty	19,725	2,772	19,818	1,871
AIG Life and Retirement				
Retail	6,442	2,173	4,900	825
Institutional	4,346	1,116	3,430	814
Total AIG Life and Retirement	10,788	3,289	8,330	1,639
Other Operations				
Mortgage Guaranty	474	119	424	56
Global Capital Markets	505	402	170	63
Direct Investment book	1,226	1,032	928	733
Retained Interests			3,860	3,860
Corporate & Other	813	(1,699)	513	(2,093)
Consolidation and elimination	(19)	2	(23)	1
Total Other Operations	2,999	(144)	5,872	2,620
AIG Consolidation and elimination	(309)	62	(302)	5
Total AIG Consolidated	\$ 33,203	\$ 5,979	\$ 33,718	\$ 6,135

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

International Lease Finance Corporation Sale

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

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

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

Table of Contents**ITEM 1 / NOTE 4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

The following table summarizes income from discontinued operations:

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

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

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

ALICO

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

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

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****December 31, 2012***(in millions)*

	Level 1	Level 2	Level 3	Counterparty Netting(a)	Cash Collateral(b)	Total
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	\$	\$ 3,483	\$	\$	\$	\$ 3,483
Obligations of states, municipalities and political subdivisions		34,681	1,024			35,705
Non-U.S. governments	1,004	25,782	14			26,800
Corporate debt		149,625	1,487			151,112
RMBS		22,730	11,662			34,392
CMBS		5,010	4,905			9,915
CDO/ABS		3,492	5,060			8,552
Total bonds available for sale	1,004	244,803	24,152			269,959
Bond trading securities:						
U.S. government and government sponsored entities	266	6,528				6,794
Non-U.S. governments		2				2
Corporate debt		1,320				1,320
RMBS		1,331	396			1,727
CMBS		1,424	803			2,227
CDO/ABS		3,969	8,545			12,514
Total bond trading securities	266	14,574	9,744			24,584
Equity securities available for sale:						
Common stock	3,002	3	24			3,029
Preferred stock		34	44			78
Mutual funds	83	22				105
Total equity securities available for sale	3,085	59	68			3,212
Equity securities trading						
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						
Separate account assets	285	7,771				8,056
Other assets	54,430	2,907				57,337
		696				696

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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			8,055
Other liabilities	30	1,050				1,080
Total	\$ 30	\$ 14,783	\$ 4,083	\$ (2,467)	\$ (1,976)	\$ 14,453

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

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

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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- and six-month periods ended June 30, 2013, we transferred \$318 million and \$557 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, respectively, as they are no longer considered actively traded. For similar reasons, during the six-month period ended June 30, 2013, we transferred \$93 million of securities issued by the U.S. government and U.S. government-sponsored entities from Level 1 to Level 2. We had no material transfers from Level 1 to Level 2 for U.S. government and government-sponsored entities for the three-month period ended June 30, 2013. We had no material transfers from Level 2 to Level 1 during the three- and six-month periods ended June 30, 2013.

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Changes in Level 3 Recurring Fair Value Measurements**

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

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

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

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

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

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

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

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

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

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

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

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

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

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

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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 June 30, 2013 and 2012 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

Transfers of Level 3 Assets and Liabilities

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

Transfers of Level 3 Assets

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

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

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

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

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

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

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Transfers of Level 3 Liabilities

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

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

Table of Contents**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:

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

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

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

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

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

CDO/ABS Direct Investment book

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

Policyholder contract deposits

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

Derivative liabilities credit contracts

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

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

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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.

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

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mergers, acquisitions and other reorganizations

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

Table of Contents**ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

Fair Value Option

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

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

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

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

(c) Excludes discontinued operations.

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

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

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

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

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

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

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

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

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

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

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

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

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

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

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

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

December 31, 2012

Bonds available for sale:

U.S. government and government sponsored entities	\$ 3,161	\$ 323	\$ (1)	\$ 3,483	\$
Obligations of states, municipalities and political subdivisions	33,042	2,685	(22)	35,705	2

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

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

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

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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:

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

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

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

Contractual Maturities of Securities Available for Sale

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

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

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

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

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

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

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

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

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

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

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

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

Net Investment Income

The following table presents the components of Net investment income:

Three Months Ended	Six Months Ended June 30,
---------------------------	----------------------------------

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

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

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

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

Change in Unrealized Appreciation of Investments

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

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

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

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

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

Purchased Credit Impaired (PCI) Securities

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

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

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

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

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

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

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

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

Pledged Investments

Secured Financing and Similar Arrangements

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

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

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

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

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

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

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

Insurance Statutory and Other Deposits

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

Other Pledges

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

Certain GIAs have provisions that require collateral to be posted or payments to be made by us upon a downgrade of our long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations

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approximated \$4.3 billion and \$4.4 billion at June 30, 2013 and December 31, 2012, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

Table of Contents**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:

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

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

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

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

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

(b) Does not reflect valuation allowances.

Allowance for Credit Losses

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

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

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

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

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

Table of Contents**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 VIE's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of our decision-making ability and our ability to influence activities that significantly affect the economic performance of the VIE.

Exposure to Loss

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

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

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

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

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

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

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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.

Table of Contents**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:

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

Balance Sheet Classification

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

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

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

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

Table of Contents**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:

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

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

(b) Includes cross-currency swaps.

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

the Condensed Consolidated Balance Sheets.

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

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

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

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

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

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

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Collateral

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

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

Offsetting

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

Hedge Accounting

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

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

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

Table of Contents**ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

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

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

Derivatives Not Designated as Hedging Instruments

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

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

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

(a) Includes cross currency swaps.

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

Table of Contents**ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Global Capital Markets Derivatives**

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

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

Super Senior Credit Default Swaps

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

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

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

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

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

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

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

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

Written Single Name Credit Default Swaps

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

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

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

All Other Derivatives

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

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ITEM 1 / NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Credit Risk-Related Contingent Features

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

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

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

Hybrid Securities with Embedded Credit Derivatives

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

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

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ITEM 1 / NOTE 10. CONTINGENCIES, COMMITMENTS AND GUARANTEES

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

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

Legal Contingencies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Starr International Litigation

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

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

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

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

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

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

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

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

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

Other Litigation Related to AIGFP

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

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

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

Employment Litigation against AIG and AIG Global Real Estate Investment Corporation

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

False Claims Act Complaint

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

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

Litigation Matters Relating to AIG's Insurance Operations

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

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

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

Regulatory and Related Matters

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

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

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

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

Other Contingencies

Liability for unpaid claims and claims adjustment expense

Although we regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business, which include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, directors and officers and products liability. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. There is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, changes in medical cost trends (inflation, intensity and utilization of medical services), underlying policy pricing, terms and conditions, and claims handling practices.

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Commitments

Flight Equipment Related to Business Held for Sale

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

Other Commitments

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

Guarantees

Subsidiaries

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

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

Asset Dispositions

General

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

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

ALICO Sale

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

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

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

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

Other

See Note 8 for commitments and guarantees associated with VIEs.

See Note 9 for disclosures about derivatives.

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

Table of Contents**ITEM 1 / NOTE 11. TOTAL EQUITY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****11. EQUITY****Shares Outstanding**

The following table presents a rollforward of outstanding shares:

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

Dividends and Repurchases of AIG Common Stock

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

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

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

Table of Contents**ITEM 1 / NOTE 11. TOTAL EQUITY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Accumulated Other Comprehensive Income**

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

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

Table of Contents**ITEM 1 / NOTE 11. TOTAL EQUITY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

Table of Contents**ITEM 1 / NOTE 11. TOTAL EQUITY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

Table of Contents**ITEM 1 / NOTE 11. TOTAL EQUITY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

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

Table of Contents**ITEM 1 / NOTE 12. NONCONTROLLING INTERESTS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****12. NONCONTROLLING INTERESTS**

The following table presents a rollforward of noncontrolling interests:

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

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

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Table of Contents**ITEM 1 / NOTE 13. EARNINGS (LOSS) PER SHARE (EPS)****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****13. EARNINGS PER SHARE (EPS)**

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

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

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

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

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

Table of Contents**ITEM 1 / NOTE 14. EMPLOYEE BENEFITS****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****14. EMPLOYEE BENEFITS**

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

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

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

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ITEM 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

15. INCOME TAXES

Interim Tax Calculation Method

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

Interim Tax Expense (Benefit)

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

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

Assessment of Deferred Tax Asset Valuation Allowance

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

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

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

the sustainability of recent operating profitability of our subsidiaries;

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

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

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

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

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ITEM 1 / NOTE 15. INCOME TAXES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Tax Examinations and Litigation

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

Accounting for Uncertainty in Income Taxes

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

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

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

[Table of Contents](#)**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT**

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

Condensed Consolidating Balance Sheets

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

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

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

(b) Eliminated in consolidation.

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

Table of Contents**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Condensed Consolidating Statements of Income**

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

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

Table of Contents**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

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

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

(a) Eliminated in consolidation.

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

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

Table of Contents**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Condensed Consolidating Statements of Comprehensive Income**

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

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Total comprehensive income
attributable to noncontrolling interests

Comprehensive income (loss) attributable to AIG	\$	8,178	\$	1,383	\$	8,365	\$	(9,748)	\$	8,178
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Table of Contents**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Condensed Consolidating Statements of Cash Flows**

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

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

Table of Contents**ITEM 1 / NOTE 16. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)****Supplementary Disclosure of Condensed Consolidating Cash Flow Information**

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

American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:**Six Months Ended June 30,
(in millions)**

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

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ITEM 1. / NOTE 17. SUBSEQUENT EVENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

17. SUBSEQUENT EVENTS

Dividend Declared

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

Authorized Share Repurchase

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to \$1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. The timing of such repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

International Lease Finance Corporation Sale

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

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

GLOSSARY AND ACRONYMS OF SELECTED INSURANCE TERMS AND REFERENCES

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

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

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

AIG's generation of deployable capital;

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

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

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

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

AIG's strategies for customer retention, growth, product development, market position, financial results and reserves; and

AIG's strategy for risk management;

the revenues and combined ratios of AIG's subsidiaries.

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

changes in market conditions;

judgments concerning the recognition of deferred tax assets; and

the occurrence of catastrophic events, both natural and man-made;

such other factors discussed in:

significant legal proceedings;

this Part I, Item 2. MD&A and Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q;

the timing and applicable requirements of any new regulatory framework to which AIG is subject as a savings and loan holding company (SLHC), as a systemically important financial institution (SIFI) and as a global systemically important insurer (G-SII);

Part I, Item 2. MD&A of the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013; and

concentrations in AIG's investment portfolios;

Part I, Item 1A. Risk Factors and Part II, Item 7. MD&A in our Annual Report on Form 10-K for the year ended December 31, 2012 (2012 Annual Report).

actions by credit rating agencies;

judgments concerning casualty insurance underwriting and insurance liabilities;

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

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ACRONYMS

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Table of Contents**ITEM 2 / USE OF NON-GAAP MEASURES**

Throughout this MD&A, we present our financial condition and results of operations in the way we believe will be most meaningful, representative and most transparent. Some of the measurements we use are "non-GAAP financial measures" under SEC rules and regulations. GAAP is the acronym for "accounting principles generally accepted in the United States." The non-GAAP financial measures we present may not be comparable to similarly-named measures reported by other companies.

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

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

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

AIG Property Casualty

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

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

Accident year loss ratio, as adjusted: the loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact on AIG

Property Casualty in excess of \$10 million each.

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ITEM 2 / USE OF NON-GAAP MEASURES

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

AIG Life and Retirement

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

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

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

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

Executive Overview

This overview of management's discussion and analysis highlights selected information and may not contain all of the information that is important to current or potential investors in AIG's securities. You should read this Quarterly Report on Form 10-Q, together with the 2012 Annual Report, in its entirety for a complete description of events, trends, uncertainties, risks and critical accounting estimates affecting AIG and its subsidiaries.

We report our results of operations as follows:

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

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

for additional information.

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

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ITEM 2 / EXECUTIVE OVERVIEW

We continued our positive financial and operational performance in 2013:

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

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

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

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

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

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

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

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

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

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

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

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

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to \$1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise.

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<i>(in millions, except per share data and ratios)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Results of operations data:				
Total revenues	\$ 17,315	\$ 16,221	\$ 33,203	\$ 33,718
Income from continuing operations	2,725	2,160	4,863	5,545
Net income attributable to AIG	2,731	2,332	4,937	5,540
Net income per common share attributable to AIG (diluted)	1.84	1.33	3.33	3.05
After-tax operating income attributable to AIG	1,655	1,678	3,637	4,724
Key metrics:				
AIG Property Casualty combined ratio	102.6	102.4	100.0	102.3
AIG Property Casualty accident year combined ratio, as adjusted	96.5	98.3	97.0	99.3
AIG Life and Retirement premiums and deposits	\$ 6,765	\$ 5,434	\$ 12,345	\$ 10,994
AIG Life and Retirement assets under management			293,665	267,754
Mortgage Guaranty new insurance written	13,979	8,576	24,637	15,139

<i>(in millions, except per share data)</i>	June 30,	December 31,
	2013	2012
Balance sheet data:		
Total assets	\$ 537,438	\$ 548,633
Long-term debt	42,614	48,500
Total AIG shareholders' equity	97,463	98,002
Book value per common share	66.02	66.38
Book value per common share excluding AOCI	61.25	57.87

The following table presents a reconciliation of Book value per common share to Book value per common share, excluding accumulated other comprehensive income (loss), which is a non-GAAP measure. See Use of Non-GAAP Measures for additional information.

<i>(in millions, except per share data)</i>	June 30,	December 31,
	2013	2012
Total AIG shareholders' equity	\$ 97,463	\$ 98,002
Accumulated other comprehensive income	7,039	12,574
Total AIG shareholders' equity, excluding accumulated other comprehensive income	\$ 90,424	\$ 85,428

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Total common shares outstanding		1,476,348,011		1,476,321,935
Book value per common share	\$	66.02	\$	66.38
Book value per common share, excluding accumulated other comprehensive income	\$	61.25	\$	57.87

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Presentation Changes

Prior period revenues and expenses were conformed to the current period presentation. These changes did not affect Income from continuing operations before income tax expense or Net income attributable to AIG. Also, the presentation of the operating segments within the AIG Life and Retirement segment was revised in the first quarter of 2013 to reflect two new operating segments: Retail and Institutional. For further discussion, see Notes 1 and 3 to the Condensed Consolidated Financial Statements.

Net investment income decreased 31 percent to \$8.0 billion in the six months ended June 30, 2013 compared to the same period of 2012, primarily due to fair value gains in 2012 on our investments in ML II, ML III and AIA, which were liquidated during 2012. The overall credit rating of our fixed maturity portfolio was largely unchanged.

Our insurance operations achieved a \$407 million increase in net investment income due to higher alternative investment income for the six months ended June 30, 2013 compared to the same period in 2012. Net investment income improved due to higher alternative investment income, driven primarily by equity market gains, which was partially offset by the absence of ML II gains in the first half of 2013 compared to 2012. While corporate debt securities represented the core of new investment allocations, we continued to make investments in structured securities and fixed income securities with attractive and appropriate risk versus return characteristics to improve yields and increase net investment income.

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Net unrealized gains in our available for sale portfolio declined to approximately \$14 billion as of June 30, 2013 from approximately \$25 billion as of December 31, 2012 due to increases in interest rates and the realization of over \$1.5 billion in gains.

Other-than-temporary impairments were significantly lower during the first six months of 2013 than the prior year, in part driven by favorable developments in the housing sector that led to strong performance in our structured products portfolios.

Industry Trends

Our business is affected by industry and economic factors such as interest rates, credit and equity market conditions, catastrophic claims events, regulation, tax policy, competition, and general economic, market and political conditions. We continue to operate under difficult market conditions in 2013, characterized by factors such as low interest rates, instability in the global markets due to the European debt crisis and slow growth in the U.S. economy.

Low interest rates in the U.S. fixed income market relative to historic levels have significantly affected our industry by reducing investment returns. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

AIG remains focused on the following priorities for 2013:

Strengthen and improve the operating performance of our core businesses;

Consummate the sale of up to 90 percent of our interest in ILFC;

Enhance the yield on our investments while maintaining focus on credit quality;

Manage our capital and interest expense more efficiently by improving our capital structure and redeploying excess capital in areas that promote profitable growth;

Work with the Board of Governors of the Federal Reserve System (the FRB) in its capacity as our principal regulator; and

Reduce operating expenses by leveraging our scale and driving increased standardization through investments in infrastructure.

The outlook for each of our businesses and management initiatives to improve growth and performance in 2013 and over the longer term is summarized below. See our 2012 Annual Report for additional information concerning strategic initiatives and opportunities for each of our businesses.

AIG PROPERTY CASUALTY OUTLOOK

We expect that the current low interest rate environment and ongoing uncertainty in global economic conditions will continue to challenge the growth of net investment income and limit growth in some markets through at least the end of 2013. Due to these conditions, coupled with overcapacity in the property casualty insurance industry, we have sought to tighten terms and conditions, shed unprofitable business and develop advanced data analytics to improve profitability.

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We have observed improving trends in certain key indicators that may offset the effect of current economic challenges. Commencing in the second quarter of 2011, and continuing since, we have benefitted from favorable pricing trends, particularly in our U.S. commercial business. The property casualty insurance industry is experiencing modest growth as a result of this positive rate trend and an increase in overall exposures in some markets. We expect that expansion in certain growth economies will occur at a faster pace than in developed countries, although at levels lower than those previously expected due to revised economic assumptions.

As part of our strategy to expand our consumer operations in emerging markets, on May 29, 2013, we entered into a joint venture agreement with PICC Life Insurance Company Limited (PICC Life), a subsidiary of The People's Insurance Company (Group) of China Limited (PICC Group), to form an agency distribution company in China. Products under consideration to be distributed by the joint venture company include jointly developed life and retirement insurance products, existing PICC Life products, PICC Property & Casualty Company Limited (PICC P&C) insurance products, AIG Property Casualty products, as well as other products aimed at meeting the needs of this developing market. We will own 24.9 percent of the joint venture company with PICC Life holding the remaining 75.1 percent. Our participation in the joint venture will be managed by AIG Property Casualty. The joint venture is planned to commence operations by the first quarter of 2014 subject to regulatory approval.

On June 6, 2013, we also exercised rights to purchase shares in connection with the rights offering of PICC P&C, a subsidiary of the PICC Group, for a purchase price of approximately \$93 million. Immediately prior to and after the rights offering, we owned 9.9 percent of the outstanding shares in PICC P&C.

AIG Property Casualty Strategic Initiatives and Opportunities

Business Mix Shift

Continue shifting toward higher value business to increase profitability.

Expand in attractive growth economies, specifically in Asia Pacific, Central Europe, the Middle East, Africa and Latin America.

Underwriting Excellence Enhance risk selection and pricing to earn returns commensurate to the risk assumed.

Claims Best Practices Implement improved claims practices and advanced technology to lower the loss ratio.

Operating Expense Discipline Apply operating expense discipline and increase efficiencies by taking full advantage of our global footprint.

Capital Efficiency Continue to streamline our legal entity structure to enhance transparency with regulators and optimize capital and tax efficiency.

Investment Strategy Continue to execute our investment strategy, which includes increased asset diversification and yield-enhancement opportunities that meet our liquidity, risk and return objectives.

Capital Efficiency

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We continue to execute capital management initiatives by enhancing broad-based risk tolerance guidelines for our operating units, implementing underwriting strategies to increase return on equity by line of business and reducing exposure to businesses with inadequate pricing and increased loss trends. In addition, we remain focused on enhancing our global reinsurance strategy to improve capital efficiency.

We continue to streamline our legal entity structure to enhance transparency with regulators and optimize capital and tax efficiency. In the six months ended June 30, 2013, we completed 19 legal entity and branch restructuring transactions. We continue to implement restructuring plans in various jurisdictions. Our overall legal entity restructuring is expected to be mostly completed by the end of 2014, subject to regulatory approvals in those jurisdictions.

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On July 16, 2013, we announced the planned merger of AIU Insurance Company Ltd. (AIU) and Fuji Fire and Marine Insurance Company, Ltd. (FFM), scheduled to take place in the second half of 2015 or later, subject to regulatory approvals. The merger is consistent with our growth strategy for the Japan market, and is intended to combine the expertise and experience of these companies to meet our customers' and partners' needs and provide products and services which will target higher levels of customer satisfaction in a cost-effective manner.

We continued the strategy, adopted in 2010, to improve the allocation of our reinsurance between traditional reinsurance markets and capital markets. On July 9, 2013, we entered into a five-year catastrophe bond transaction, which will provide \$125 million of indemnity protection against U.S., Caribbean and Gulf of Mexico named storms, and U.S. and Canadian earthquakes. The transaction provides us with fully collateralized coverage against losses from the events described above on a per-occurrence basis through June 2018. In addition, effective May 31, 2013, we modified certain reinsurance arrangements from our Japan entities to simplify operations and facilitate efficient capital allocation.

AIG LIFE AND RETIREMENT OUTLOOK

AIG Life and Retirement's businesses and the life and annuity industry continue to be affected by the current economic environment of low interest rates and volatile equity markets. Continued low interest rates put pressure on long-term investment returns, negatively affect sales of interest rate sensitive products and reduce future profits on certain existing products. Products such as payout annuities and traditional life insurance that are not rate-adjustable may require increases in reserves if future investment yields fall to a level that results in expected future losses. Also, low interest rates can affect the recoverability and accelerate the amortization of DAC assets held with respect to our variable annuity, fixed annuity and universal life businesses. Equity market volatility may result in higher reserves for variable annuity guarantee features, and can affect the recoverability and amortization rate of DAC assets.

AIG Life and Retirement has implemented a number of actions to address the impact of low interest rates. These actions include a disciplined approach to pricing new business related to interest sensitive products (e.g. fixed annuities) and active management of renewal crediting rates. We have filed new life insurance and annuity products with reduced minimum rate guarantees.

Although the low interest rate environment still persists, the recent increase in interest rates has improved our outlook for our interest rate sensitive businesses. An increase in interest rates will negatively affect the fair value of our investment portfolio, but rising interest rates will increase the rate earned on new investment purchases and, over time, should positively affect overall yields. Steadily increasing interest rates accompanied by a steepening in the yield curve are also favorable for fixed annuity sales as fixed annuities become more competitive in the marketplace compared to alternatives such as bank deposits. In addition, increases in interest rates will positively affect our retirement income solutions business results, as increases in interest rates generally reduce the value of embedded derivative liabilities contained in guaranteed benefit features of variable annuities. Rapid and significant increases from current levels of interest rates, however, could result in elevated surrender activity in our interest rate sensitive products, primarily fixed annuities with lower guaranteed minimum interest rates. The extent of the increase in surrender activity, if any, will depend on the relationship of minimum guarantees embedded in certain in-force contracts relative to the pace and extent of interest rate increases. Approximately \$22.5 billion, or 24 percent, of our fixed annuity account values have minimum rate guarantees greater than 3 percent.

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AIG Life and Retirement Strategic Initiatives and Opportunities

Assets Under Management Fully leverage a unified distribution organization to increase sales of profitable products across all channels. Capitalize on the growing demand for income solutions and on AIG Life and Retirement's capital base, risk controls, innovative product designs, expanded distribution initiatives and financial discipline to grow the variable annuity business. Pursue selected institutional market opportunities where AIG Life and Retirement's scale and capital base provide a competitive advantage.

Product Innovation Develop innovative life offerings through consumer-focused research that delivers superior, differentiated product solutions.

Operational Efficiencies Consolidate life insurance and annuity platforms, operations and administrative systems to create a more efficient, cost-competitive and agile operating model.

Return on Equity We completed the merger of six life insurance operating legal entities into American General Life Insurance Company effective December 31, 2012. We are leveraging our streamlined legal entity structure to enhance financial strength and durability, more efficiently allocate capital and enhance the ease of doing business with us. We have also made organizational changes to achieve greater operational leverage across our businesses.

Investment Strategy Consistent with AIG's worldwide insurance investment policy, AIG Life and Retirement places primary emphasis on investments in fixed maturity securities issued by corporations, municipalities and other governmental agencies, structured securities collateralized by, among others, residential and commercial real estate, commercial mortgage loans and, to a lesser extent, private equity, hedge funds, other alternative investments, and common and preferred stocks.

Our fundamental investment strategy is to maintain primarily a diversified, high quality portfolio of fixed maturity securities with the intent to match established duration targets based on the characteristics of our liabilities. In addition, we enhance our returns through investments in a diversified portfolio of private equity funds, hedge funds and affordable housing partnerships. Although these investments are subject to periodic volatility, they have historically achieved yields in excess of the fixed income portfolio yields. Our expectation is that these alternative investments will continue to outperform the fixed income portfolio yields over the long-term while providing important diversification to our investment portfolio.

We continue to make investments in structured securities and fixed income securities with attractive risk versus return characteristics to improve yields and increase net investment income. Overall our yields have been declining since the latter half of 2012 as investment purchases have been made at yields lower than the weighted average yield of the existing portfolio. We would expect this trend to continue as long as reinvestment rates are below the weighted average yield of the investment portfolio. Although interest rates continue to be low relative to historic levels, the recent increase in interest rates has improved our reinvestment outlook.

OTHER OPERATIONS OUTLOOK

Mortgage Guaranty

Mortgage Guaranty Strategic Initiatives and Opportunities

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The improving U.S. mortgage market has resulted in increasing levels of mortgage originations, house value appreciation and tight mortgage underwriting standards which combined with improving U.S. macroeconomic conditions, have had a favorable impact on our operating results, most notably on the volume and quality of new business written. UGC is a leading provider of mortgage insurance and has differentiated itself from competitors through its risk-based pricing strategy initiated in 2009. This pricing strategy provides UGC's customers with mortgage insurance products that are priced commensurate with underwriting risk, which we believe has resulted in an appropriately priced high quality book of business. UGC plans to continue to execute this strategy during the remainder of 2013. The new business generated since 2009 accounts for approximately 50 percent of net premiums earned for the six months ended June 30, 2013.

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During the first half of 2013, low interest rates on mortgages resulted in increased refinancing activity. These low rates, along with housing price appreciation and an improvement in the overall economy have also resulted in increased home purchase activity. If interest rates were to continue to rise in the future, we would expect refinancing activities to decline. However, a decline could be offset by any increases in mortgage activity related to an increase in home sales. Additionally, in a rising interest rate environment mortgage insurance is likely to see higher persistency generating revenue over longer periods in the future.

Global Capital Markets

AIG Markets acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. The derivative portfolio of AIG Markets consists primarily of interest rate and currency derivatives.

The remaining derivatives portfolio of AIG Financial Products Corp. and AIG Trading Group, Inc. and their respective subsidiaries (collectively, AIGFP) consists primarily of hedges of the assets and liabilities of the DIB and a portion of the legacy hedges for AIG and its subsidiaries. AIGFP's derivatives portfolio consists primarily of interest rate, currency, credit, commodity and equity derivatives. Additionally, AIGFP has a credit default swap portfolio being managed for economic benefit and with limited risk. The AIGFP portfolio continues to be wound down and is managed consistent with our risk management objectives. Although the portfolio may experience periodic fair value volatility, it consists predominantly of transactions that we believe are of low complexity, low risk or currently not economically appropriate to unwind based on a cost versus benefit analysis.

Direct Investment Book

The DIB portfolio is being wound down and is managed with the objective of ensuring that at all times it maintains the liquidity we believe is necessary to meet all its liabilities, as they come due, even under stress scenarios, and to maximize return consistent with our risk management objectives. We are focused on meeting the DIB's liquidity needs, including the need for contingent liquidity arising from collateral posting for debt positions of the DIB, without relying on resources beyond the DIB. As part of this program management, we may from time to time access the capital markets, including issuing and repurchasing debt and selling assets on an opportunistic basis, in each case subject to market conditions.

From time to time, we may utilize cash allocated to the DIB that is not required to meet the risk target for general corporate purposes unrelated to the DIB.

Certain non-derivative assets and liabilities of the DIB are accounted for under the fair value option and thus operating results are subject to periodic market volatility. The overall hedging activity for the assets and liabilities of the DIB is executed by GCM. The value of hedges related to the non-derivative assets and liabilities of AIGFP in the DIB is included within the assets and liabilities and operating results of GCM and is not included within the DIB operating results, assets or liabilities.

[Table of Contents](#)**ITEM 2 / RESULTS OF OPERATIONS****Results of Operations**

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three- and six-month periods ended June 30, 2013 and 2012. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section herein and in Part II, Item 7, MD&A, in the 2012 Annual Report.

The following table presents AIG's condensed consolidated results of operations:

<i>(in millions)</i>	Three Months Ended			Six Months Ended		
	June 30, 2013	2012	Percentage Change	June 30, 2013	2012	Percentage Change
Revenues:						
Premiums	\$ 9,200	\$ 9,629	(4)%	\$ 18,572	\$ 19,099	(3)%
Policy fees	623	567	10	1,238	1,151	8
Net investment income	3,844	4,481	(14)	8,008	11,586	(31)
Net realized capital gains	1,591	399	299	1,891	148	NM
Other income	2,057	1,145	80	3,494	1,734	101
Total revenues	17,315	16,221	7	33,203	33,718	(2)
Benefits, claims and expenses:						
Policyholder benefits and claims incurred	8,090	7,789	4	14,818	14,908	(1)
Interest credited to policyholder account balances	972	1,054	(8)	1,989	2,116	(6)
Amortization of deferred acquisition costs	1,353	1,472	(8)	2,639	2,819	(6)
Other acquisition and insurance expenses	2,245	2,264	(1)	4,483	4,522	(1)
Interest expense	535	567	(6)	1,112	1,132	(2)
Net loss on extinguishment of debt	38	9	322	378	9	NM
Other expenses	935	1,397	(33)	1,805	2,077	(13)
Total benefits, claims and expenses	14,168	14,552	(3)	27,224	27,583	(1)
Income from continuing operations before income tax expense (benefit)	3,147	1,669	89	5,979	6,135	(3)
Income tax expense (benefit)	422	(491)	NM	1,116	590	89
Income from continuing operations	2,725	2,160	26	4,863	5,545	(12)
Income from discontinued operations, net of income tax expense (benefit)	33	179	(82)	126	243	(48)
Net income	2,758	2,339	18	4,989	5,788	(14)
Less: Net income attributable to noncontrolling interests	27	7	286	52	248	(79)
Net income attributable to AIG	\$ 2,731	\$ 2,332	17%	\$ 4,937	\$ 5,540	(11)%

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Income from continuing operations before income taxes was \$3.1 billion for the three months ended June 30, 2013 compared to \$1.7 billion for the same period in 2012, and reflected the following:

pre-tax income from insurance operations of \$2.9 billion and \$1.7 billion in the three months ended June 30, 2013 and 2012, respectively;

aggregate pre-tax income from GCM and DIB of \$895 million and \$460 million in the three months ended June 30, 2013 and 2012, respectively;

net investment income in 2012 included a decrease in fair value of AIG's interest in AIA ordinary shares of \$493 million;

net investment income in 2012 reflected an increase in fair value of AIG's interest in ML III of \$1.3 billion based in part on sales of ML III assets by the Federal Reserve Bank of New York (the FRBNY) in the second quarter of 2012; and

pre-tax income in 2012 included an increase in estimated litigation liability of approximately \$719 million based on developments in several actions.

Income from continuing operations before income taxes was \$6.0 billion for the six months ended June 30, 2013 compared to \$6.1 billion for the same period in 2012, and reflected the following:

pre-tax income from insurance operations of \$6.1 billion and \$3.5 billion in the six months ended June 30, 2013 and 2012, respectively;

aggregate pre-tax income from GCM and DIB of \$1.4 billion and \$796 million in the six months ended June 30, 2013 and 2012, respectively;

Results of Operations Highlights

AIG Property Casualty improved its accident year loss ratio, as adjusted, due to underwriting improvements, and posted strong net investment income performance.

AIG Life and Retirement continued to actively manage spread income in a continuing low interest rate environment and realized higher returns on alternative investments.

Our investment portfolio performance, excluding gains recognized in 2012 from our previous investments in ML II, ML III and AIA, improved due to higher returns on alternative investments, driven primarily by equity market gains.

loss on extinguishment of debt of \$378 million resulting from redemptions of, and cash tender offers for, certain securities in the six months ended June 30, 2013;

net investment income in 2012 reflected an increase in fair value of AIG's interests in AIA ordinary shares and ML III of \$1.3 billion and \$2.6 billion; respectively; and

pre-tax income in 2012 included an increase in estimated litigation liability of approximately \$727 million based on developments in several actions.

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

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

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

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income attributable to AIG	\$ 2,731	\$ 2,332	\$ 4,937	\$ 5,540
Income from discontinued operations, net of income tax expense	(33)	(179)	(126)	(243)
Net losses on sale of divested businesses	31		31	2
Uncertain tax positions and other tax adjustments	64	331	690	331
Legal reserves (settlements) related to legacy crisis matters	(257)	473	(321)	477
Deferred income tax valuation allowance releases	(752)	(1,283)	(1,538)	(1,576)
Changes in fair value of AIG Life and Retirement securities designated to hedge living benefit liabilities	45	(45)	64	(33)
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital gains	835	359	889	336
Loss on extinguishment of debt	25	6	246	6
Net realized capital gains	(1,034)	(302)	(1,235)	(103)
Non-qualifying derivative hedging gains, excluding net realized capital gains		(14)		(13)
After-tax operating income attributable to AIG	\$ 1,655	\$ 1,678	\$ 3,637	\$ 4,724

After-tax operating income attributable to AIG was flat in the three-month period ended June 30, 2013 compared to the same period in 2012. After-tax operating income attributable to AIG decreased in the six-month period ended June 30, 2013 compared to the same period in 2012, primarily due to fair value gains on AIG's previously held interests in AIA ordinary shares, ML II, and ML III, discussed above, partially offset by increases in income from insurance operations.

For the three months ended June 30, 2013 and 2012, the effective tax rate on pre-tax operating income was 31.8 percent and 31.7 percent, respectively. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

For the six months ended June 30, 2013 and 2012, the effective tax rate on pre-tax operating income was 30.8 percent and 30.7 percent, respectively. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income and other permanent tax items, and the impact of discrete tax benefits.

AIG reports the results of its operations through two reportable segments: AIG Property Casualty and AIG Life and Retirement. The Other operations category consists of businesses and items not allocated to our reportable segments.

Table of Contents**ITEM 2 / RESULTS OF OPERATIONS**

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

<i>(in millions)</i>	Three Months Ended			Six Months Ended		
	June 30, 2013	2012	Percentage Change	June 30, 2013	2012	Percentage Change
Total revenues:						
AIG Property Casualty	\$ 9,766	\$ 10,020	(3)%	\$ 19,725	\$ 19,818	%
AIG Life and Retirement	6,048	4,428	37	10,788	8,330	30
Total reportable segments	15,814	14,448	9	30,513	28,148	8
Other Operations	1,691	1,869	(10)	2,999	5,872	(49)
Consolidation and eliminations	(190)	(96)	(98)	(309)	(302)	(2)
Total	\$ 17,315	\$ 16,221	7	\$ 33,203	\$ 33,718	(2)
Pre-tax income (loss):						
AIG Property Casualty	\$ 1,168	\$ 961	22	\$ 2,772	\$ 1,871	48
AIG Life and Retirement	1,719	777	121	3,289	1,639	101
Total reportable segments	2,887	1,738	66	6,061	3,510	73
Other Operations	270	(116)	NM	(144)	2,620	NM
Consolidation and eliminations	(10)	47	NM	62	5	NM
Total	\$ 3,147	\$ 1,669	89	\$ 5,979	\$ 6,135	(3)

TOTAL REVENUES*(in millions)*

A discussion of significant items affecting pre-tax segment income follows. Factors that affect operating income for a specific business segment are discussed in the detailed business segment analysis.

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AIG Property Casualty Pre-tax income increased in the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012, primarily as a result of improved net investment income in both the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012 due to the strong performance of alternative investments and income associated with the PICC P&C shares. The accident year loss ratio, as adjusted, improved due to the continued shift to higher value business, enhanced risk selection and improved pricing.

AIG Life and Retirement Pre-tax income increased in the three- and six-month periods ended June 30, 2013 compared to the same periods in 2012, primarily due to higher net investment income driven by higher returns on alternative investments, increased fee income from growth in our variable annuity account value, continued active spread management related to our interest rate sensitive businesses and income from legal settlements. This increase was partially offset by the absence in 2013 of the fair value gains on ML II that were recognized in the prior-year period. Net realized capital gains increased due to gains from sales activity in connection with utilizing capital loss carryforwards, which were partially offset by the triggering of a loss recognition reserve, reflected in Policyholder benefits and claims incurred, from the subsequent reinvestment of the proceeds from these sales at lower yields.

Other Operations Other operations recorded pre-tax income in the three-month period ended June 30, 2013 compared to a pre-tax loss in the same period of 2012 due to increased pre-tax income from GCM and DIB. The pre-tax loss in the same period in 2012 included an increased estimated litigation liability. Other Operations recorded a pre-tax loss in the six-month period ended June 30, 2013 compared to a pre-tax gain in the same period in 2012 due to a loss on extinguishment of debt resulting from the redemption of and cash tender offers for certain securities in 2013 and fair value and realized gains in 2012 from our previously held interests in AIA ordinary shares and ML III.

Mortgage Guaranty's operating income increased in the three- and six-month periods of June 30, 2013 compared to the same periods of 2012 due to higher net premiums earned in the first-lien business and settlements and commutations.

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The following table presents reconciliations of pre-tax income (loss) to operating income (loss) by reportable segment and after-tax operating income attributable to AIG, which are non-GAAP measures. See Use of Non-GAAP Measures for additional information.

<i>(in millions)</i>	Three Months		Six Months Ended	
	Ended June 30, 2013	2012	June 30, 2013	2012
AIG Property Casualty				
Pre-tax income	\$ 1,168	\$ 961	\$ 2,772	\$ 1,871
Net realized capital (gains) losses	(73)	(23)	(85)	112
Other (income) expense net	(10)	(2)	(13)	(4)
Operating income	\$ 1,085	\$ 936	\$ 2,674	\$ 1,979
AIG Life and Retirement				
Pre-tax income	\$ 1,719	\$ 777	\$ 3,289	\$ 1,639
Legal settlements*	(359)		(467)	
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	69	(70)	98	(51)
Net realized capital (gains) losses	(1,430)	(326)	(1,586)	140
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital (gains) losses	1,152	552	1,211	516
Operating income	\$ 1,151	\$ 933	\$ 2,545	\$ 2,244
Other Operations				
Pre-tax income (loss)	\$ 270	\$ (116)	\$ (144)	\$ 2,620
Net realized capital (gains) losses	(124)	61	(211)	(356)
Net (gains) losses on sale of divested businesses	47		47	3
Legal reserves	14	728	25	734
Legal settlements*	(46)		(48)	
Loss on extinguishment of debt	38	9	378	9
Operating income	\$ 199	\$ 682	\$ 47	\$ 3,010
Total				
Operating income of reportable segments and other operations	\$ 2,435	\$ 2,551	\$ 5,266	\$ 7,233
Consolidations, eliminations and other adjustments	33	(87)	63	(57)
Pre-tax operating income	2,468	2,464	5,329	7,176
Income tax expense	(786)	(779)	(1,640)	(2,204)
Non-controlling interest	(27)	(7)	(52)	(248)
After-tax operating income attributable to AIG	\$ 1,655	\$ 1,678	\$ 3,637	\$ 4,724

* Reflects income in the first half of 2013 from settlements with financial institutions that participated in the creation, offering and sale of RMBS from which AIG realized losses during the financial crisis.

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PRE-TAX INCOME (LOSS)

(in millions)

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OPERATING INCOME (LOSS)

(in millions)

AIG Property Casualty presents its financial information in two operating segments – Commercial Insurance and Consumer Insurance – as well as an Other category.

Commercial Insurance provides insurance solutions for large and small businesses. Commercial lines products are distributed through a network of independent retail and wholesale brokers, branches, and through an independent agency network in the Asia Pacific and EMEA regions.

Consumer Insurance provides personal insurance solutions for individuals, organizations and families. Consumer Insurance products are distributed through agents and brokers, as well as through direct marketing, partner organizations and the internet.

The **Other** category consists primarily of certain run-off lines of business, including excess workers' compensation written on a stand-alone basis, reserves for asbestos and environmental (1986 and prior) claims, and certain environmental liability businesses written prior to 2004. It also includes a portion of AIG Property Casualty expenses relating to global corporate initiatives, expense allocations from AIG Parent not attributable to the Commercial Insurance or Consumer Insurance operating segments, unallocated net investment income, net realized capital

gains and losses, and other income (expense).

See Part 1. Item 1. Business - AIG Property Casualty in AIG's 2012 Annual Report for further discussion of AIG Property Casualty's products and geographic regions where it distributes its products.

We assess the performance of our operating segments based on operating income (loss), loss ratio, acquisition ratio, general operating expense ratio and combined ratio.

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We are developing new value-based metrics that provide management with measures to evaluate our profitability, such as a risk-adjusted profitability model. Along with underwriting results, this risk-adjusted profitability model incorporates elements of capital allocations, costs of capital and net investment income. We believe that such performance measures will allow us to better assess the true economic returns of our business.

Net premiums written increased by two percent for the three-month period ended June 30, 2013 compared to the same period in the prior year due to the growth of new business, rate increases and the impact of a change in the timing of recognizing the excess of loss ceded premiums written discussed below, which were partially offset by the effect of foreign exchange as a result of the strengthening of the U.S. dollar against the Japanese yen. In the first quarter of 2013, we began to recognize ceded premiums written under excess of loss reinsurance agreements at the inception of the contract rather than ratably over the contract period. The negative impact on net premiums written from this change in the timing of recognizing these ceded premiums in the first quarter of 2013 began to reverse in the second quarter of 2013 and will continue to reverse throughout the rest of 2013. Excluding the impact of this change and the effect of foreign exchange, Commercial Insurance and Consumer Insurance net premiums written increased by approximately 4 percent and 5 percent, respectively, in the three-month period ended June 30, 2013 compared to the same period in the prior year.

Net premiums written decreased by one percent for the six-month period ended June 30, 2013 compared to the same period in the prior year due to the impact of a change in the timing of recognizing the excess of loss ceded premiums written and the effect of the Japanese yen on foreign exchange, which was partially offset by growth of new business and rate increases. Excluding the impact of excess of loss ceded premiums written and the effect of foreign exchange, Commercial Insurance and Consumer Insurance net premiums written increased by approximately 3 percent and 4 percent, respectively, in the six-month period ended June 30, 2013 compared to the same period in the prior year.

The loss ratio improved by 0.9 points for the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the benefit from positive pricing trends and the continued effect of the execution of our strategic initiatives, which we began implementing in the second half of 2011. This improvement was partially offset by an increase in net adverse prior year development, including related premium adjustments, primarily from Storm Sandy of \$142 million. Net adverse prior year development, including related premium adjustments, during the three-month period ended June 30, 2013 totaled \$154 million compared to \$137 million for the same period in the prior year. Additionally, the three- and six-month periods ended June 30, 2012 benefitted from an increase in reserve discount.

The loss ratio improved by 2.9 points for the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the benefit from positive pricing trends, the continued effect of the execution of our strategic initiatives, which we began implementing in the second half of 2011, decreases in net adverse prior year development and lower catastrophe losses. Net adverse prior year development, including related premium adjustments, during the six-month period ended June 30, 2013 was \$102 million, which included \$142 million of adverse development from Storm Sandy, compared to \$184 million for the same period in the prior year. Additionally, the six-month period ended June 30, 2012, benefitted from an increase in reserve discount.

The acquisition ratio increased by 0.4 points for the three-month period ended June 30, 2013 and was unchanged for the six-month period ended June 30, 2013, compared to the same periods in the prior year due in both cases to the change in business mix and direct marketing costs in Consumer Insurance, which were partially offset by decreases in the Commercial Insurance acquisition ratio related to the change in business mix and insurance-related assessments.

The general operating expense ratio increased by 0.7 points and 0.6 points for the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year. The increase in the cost of our employee incentive plans was offset by a decrease in bad debt expense and reduced costs for infrastructure projects. The lower net premiums earned base contributed approximately 0.7 points and 0.5 points, respectively, to the general operating expense ratio.

Net investment income increased by 14 percent and 12 percent for the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year, primarily due to the strong performance of alternative investments and income associated with the PICC P&C shares.

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AIG Property Casualty Results

The following table presents AIG Property Casualty results:

<i>(in millions)</i>	Three Months Ended		Percentage Change	Six Months Ended		Percentage Change
	June 30, 2013	2012		June 30, 2013	2012	
Commercial Insurance						
Underwriting results:						
Net premiums written	\$ 5,876	\$ 5,568	6%	\$ 10,779	\$ 10,791	%
Increase in unearned premiums	(803)	(228)	(252)	(578)	(289)	(100)
Net premiums earned	5,073	5,340	(5)	10,201	10,502	(3)
Claims and claims adjustment expenses incurred	3,685	3,776	(2)	7,014	7,506	(7)
Acquisition expenses	829	920	(10)	1,667	1,848	(10)
General operating expense	647	610	6	1,212	1,200	1
Underwriting income (loss)	(88)	34	NM	308	(52)	NM
Net investment income	623	711	(12)	1,268	1,442	(12)
Operating income	\$ 535	\$ 745	(28)%	\$ 1,576	\$ 1,390	13%
Consumer Insurance						
Underwriting results:						
Net premiums written	\$ 3,390	\$ 3,528	(4)%	\$ 6,922	\$ 7,125	(3)%
Increase in unearned premiums	(135)	(79)	(71)	(259)	(180)	(44)
Net premiums earned	3,255	3,449	(6)	6,663	6,945	(4)
Claims and claims adjustment expenses incurred	1,916	2,043	(6)	3,885	4,073	(5)
Acquisition expenses	842	812	4	1,692	1,641	3
General operating expense	498	517	(4)	1,032	1,036	
Underwriting income (loss)	(1)	77	NM	54	195	(72)
Net investment income	92	115	(20)	190	231	(18)
Operating income	\$ 91	\$ 192	(53)%	\$ 244	\$ 426	(43)%
Other						
Underwriting results:						
Net premiums written	\$ (3)	\$ (1)	(200)%	\$ (1)	\$ (1)	%

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Decrease in unearned premiums	22	32	(31)	42	62	(32)
Net premiums earned	19	31	(39)	41	61	(33)
Claims and claims adjustment expenses incurred	78	260	(70)	193	409	(53)
Acquisition expenses		1	NM		1	NM
General operating expense	77	98	(21)	204	191	7
Underwriting loss	(136)	(328)	59	(356)	(540)	34
Net investment income	595	327	82	1,210	703	72
Operating income (loss)	459	(1)	NM	854	163	424
Net realized capital gains (losses)	73	23	217	85	(112)	NM
Other income net	10	2	400	13	4	225
Pre-tax income	\$ 542	\$ 24	NM%	\$ 952	\$ 55	NM%
Total AIG Property Casualty						
Underwriting results:						
Net premiums written	\$ 9,263	\$ 9,095	2%	\$ 17,700	\$ 17,915	(1)%
Increase in unearned premiums	(916)	(275)	(233)	(795)	(407)	(95)
Net premiums earned	8,347	8,820	(5)	16,905	17,508	(3)
Claims and claims adjustment expenses incurred	5,679	6,079	(7)	11,092	11,988	(7)
Acquisition expenses	1,671	1,733	(4)	3,359	3,490	(4)
General operating expense	1,222	1,225		2,448	2,427	1
Underwriting income (loss)	(225)	(217)	(4)	6	(397)	NM
Net investment income	1,310	1,153	14	2,668	2,376	12
Operating income	1,085	936	16	2,674	1,979	35
Net realized capital gains (losses)	73	23	217	85	(112)	NM
Other income net	10	2	400	13	4	225
Pre-tax income	\$ 1,168	\$ 961	22%	\$ 2,772	\$ 1,871	48%

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* The operations reported as part of Other do not have meaningful levels of Net premiums written.

AIG Property Casualty Quarterly Results

Operating income increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, due to an increase in net investment income, which was partially offset by a slight increase in underwriting loss. Net investment income increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, due to the strong performance of alternative investments and income associated with the PICC P&C shares. The asset diversification strategies that we executed during 2012 enabled us to maintain similar yields in the portfolio despite the continued low interest rate environment in 2013. Adverse development on Storm Sandy increased our underwriting loss in the three-month period ended June 30, 2013.

See Liability for Unpaid Claims and Claims Adjustment Expense for further discussion of prior year development.

Acquisition expenses decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to a decrease in Commercial Insurance related to the change in business mix, which was partially offset by an increase in Consumer Insurance due to the change in business mix and direct marketing costs.

General operating expenses decreased slightly in the three-month period ended June 30, 2013 compared to the same period in the prior year primarily due to decreases in bad debt expense and reduced costs for infrastructure projects. This was partially offset by an increase in the cost of our employee incentive plans of \$77 million, primarily due to the alignment of employee performance with the overall performance of the organization, including our stock

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performance. Bad debt expense and infrastructure project expenses, in the aggregate, decreased in the three-month period ended June 30, 2013 by \$49 million from \$121 million in the same period in the prior year.

AIG Property Casualty Year-to-Date Results

Operating income increased in the six-month period ended June 30, 2013 compared to the same period in the prior year due to an increase in both net investment income and underwriting income. We generated underwriting income in the first half of 2013 compared to an underwriting loss in the same period in the prior year reflecting improved current accident year losses, decreases in net adverse prior year development as well as lower catastrophe losses. Net investment income increased in the six-month period ended June 30, 2013 compared to the same period in the prior year due to the strong performance of alternative investments and income associated with the PICC P&C shares. The asset diversification strategies that we executed during 2012 enabled us to maintain similar yields in the portfolio despite the continued low interest rate environment in 2013.

Acquisition expenses decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the timing of certain guaranty funds and other assessments in Commercial Insurance, which were partially offset by an increase in acquisition expenses in Consumer Insurance due to the change in business mix and direct marketing costs.

General operating expenses increased in the six-month period ended June 30, 2013 compared to the same period in the prior year, due to an increase in the cost of our employee incentive plans of \$111 million and a \$42 million increase due to the implementation of a voluntary early retirement plan in Japan. The increase in the cost of our employee incentive plans was primarily due to the alignment of employee performance with the overall performance of the organization, including our stock performance, and accelerated vesting provisions for retirement-eligible individuals in the 2013 share-based plan. This was partially offset by decreases in bad debt expense and reduced costs for infrastructure projects. Bad debt expense and infrastructure project expenses decreased in the six-month period ended June 30, 2013 by \$111 million, compared to \$197 million in the same period in the prior year.

Commercial Insurance Quarterly Results

Operating income decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to an underwriting loss in the second quarter of 2013, compared to underwriting income in the second quarter of 2012, and a reduction in allocated net investment income due to a decrease in risk-free rates. The underwriting loss resulted from an increase in net prior year adverse loss development and higher catastrophe losses. This was partially offset by improvement in our current accident year losses, reflecting rate increases and enhanced risk selection, as well as lower acquisition expenses. Net prior year adverse development, including related premium adjustments, was \$187 million in the three-month period ended June 30, 2013 compared to \$2 million in the same period in the prior year. The three-month period ended June 30, 2013 includes approximately \$164 million of adverse development from Storm Sandy. This development resulted from higher severities on a small number of existing large and complex commercial claims. These increased severities were driven by a number of factors, including the extensive damage caused to properties in the downtown New York metropolitan area. In the three-month period ended June 30, 2013, catastrophe losses were \$307 million compared to \$288 million in the same period in 2012.

Acquisition expenses decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year due to the timing of certain guaranty funds and other assessments and the change in business mix.

General operating expenses increased in the three-month period ended June 30, 2013 compared to the same period in the prior year primarily due to an increase in employee incentive plan expense previously discussed, which was partially offset by a decrease in bad debt expense.

Commercial Insurance Year-to-Date Results

Operating income increased in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to underwriting income in the six-month period ended June 30, 2013 compared to an underwriting loss in the same period of 2012, partially offset by a decrease in allocated net investment income as a result of a decrease in risk-free rates. Commercial Insurance generated underwriting income in the six-month period ended June 30, 2013 compared to an underwriting loss in the same period of the prior year, primarily due to improved current accident year losses, rate increases, enhanced risk selection, and slightly lower catastrophe losses, which were partially offset by an increase in net prior year adverse loss development. In the six-month period ended

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June 30, 2013, catastrophe losses were \$340 million compared to \$364 million in the same period in 2012. Net prior year adverse development, including related premium adjustments was \$116 million in the six-month period ended June 30, 2013, which includes \$164 million of adverse development related to Storm Sandy, compared to \$30 million in the prior year.

Acquisition expenses decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year due to the timing of guaranty funds and other assessments, as well as change in business mix.

General operating expenses increased in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the increase in employee incentive plan expense previously discussed, which was partially offset by a decrease in bad debt expense.

Consumer Insurance Quarterly Results

Operating income decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year primarily due to a decrease in both underwriting income and allocated net investment income. Underwriting income decreased due to increases in acquisition expenses, investment in strategic business expansion in growth economy nations, and the change in business mix towards higher value products, offset in part by lower catastrophe losses and higher net prior year favorable development. Allocated net investment income decreased due to a decrease in risk-free rates. Catastrophe losses for the three-month period ended June 30, 2013 were \$9 million, compared to \$40 million during the same period in the prior year. Net prior year favorable development was \$53 million in the three-month period ended June 30, 2013, compared to \$36 million in the prior year. The second quarter of 2013 includes approximately \$22 million of favorable development for Storm Sandy driven primarily by the reduction of reserves for excess flood policies indicated from completed property inspections and lower than expected severity on certain other policy claims.

Acquisition expenses increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the change in business mix and direct marketing costs in growth-targeted lines of business. Direct marketing expenses, excluding commissions, for the three-month period ended June 30, 2013 were \$118 million, compared to \$103 million during the same period in the prior year. These expenses, while not deferrable, are expected to generate business that has an average expected overall persistency of approximately 5 years and, in Japan, approximately 9 years.

General operating expenses decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year due to reduced costs for infrastructure projects.

Consumer Insurance Year-to-Date Results

Operating income decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to a decrease in both underwriting income and allocated net investment income. Underwriting income decreased due to increases in acquisition expenses, investment in strategic business expansion in growth economy nations, and the change in business mix towards higher value products, offset in part by lower catastrophe losses and higher net prior year favorable development. Allocated net investment income decreased due to a decrease in risk-free rates. Catastrophe losses for the six-month period ended June 30, 2013 were \$17 million, compared to \$44 million during the same period in the prior year. Net prior year favorable development was \$95 million in the six-month period ended June 30, 2013, compared to \$50 million in the prior year period. The first half of 2013 included approximately \$43 million of favorable development from Storm Sandy.

Acquisition expenses increased in the six-month period ended June 30, 2013 compared to the same period in the prior year primarily due to the change in business mix and direct marketing costs in growth targeted lines of business, particularly in the life and A&H businesses. Direct marketing expenses, excluding commissions, for the six-month period ended June 30, 2013 were \$225 million, compared to \$209 million during the same period in the prior year.

General operating expenses decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to reduced costs for infrastructure projects, which were partially offset by the increase in employee incentive plan expense previously discussed and the strategic expansion in growth economy nations.

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The following table presents AIG Property Casualty net premiums written by major line of business:

<i>(in millions)</i>	Three Months Ended			Percentage Change	Six Months Ended		
	June 30,				June 30,		
	2013	2012		2013	2012	Percentage Change	
Commercial Insurance							
Casualty	\$ 2,110	\$ 2,181	(3)%	\$ 4,354	\$ 4,533	(4)%	
Property	1,770	1,447	22	2,453	2,419	1	
Specialty	882	864	2	1,854	1,854		
Financial lines	1,114	1,076	4	2,118	1,985	7	
Total net premiums written	\$ 5,876	\$ 5,568	6%	\$ 10,779	\$ 10,791	%	
Consumer Insurance							
Accident & Health	\$ 1,645	\$ 1,696	(3)%	\$ 3,438	\$ 3,503	(2)%	
Personal lines	1,745	1,832	(5)	3,484	3,622	(4)	
Total net premiums written	\$ 3,390	\$ 3,528	(4)%	\$ 6,922	\$ 7,125	(3)%	
Other	(3)	(1)	(200)	(1)	(1)		
Total AIG Property Casualty net premiums written	\$ 9,263	\$ 9,095	2%	\$ 17,700	\$ 17,915	(1)%	

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Commercial Insurance Net Premiums Written

During the three- and six-month periods ended June 30, 2013, Commercial Insurance continued to focus on the execution of its strategic objectives.

Casualty net premiums written decreased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year, primarily due to the execution of our strategy to improve loss ratios as well as to increase specific reinsurance purchases to better manage our exposures. Changes in reinsurance strategy decreased net premiums written by \$78 million and \$135 million in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year. We implemented rate increases in retained business, especially in the U.S., that partially offset these premium decreases.

Property net premiums written increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to growth in new business, increases in coverage limits and changes to our per-risk reinsurance program to retain more favorable risks, while continuing to manage aggregate exposure. The increase in the three-month period ended June 30, 2013 also reflected a \$197 million benefit from the impact of a change in the timing of recognizing the excess of loss ceded premiums written described below, as well as a \$102 million benefit from non-renewal of certain reinsurance programs. Catastrophe-exposed business in the Americas also benefitted from rate increases.

Effective January 1, 2013, we began to recognize the annual ceded premiums written under excess of loss reinsurance agreements at the inception of the contract rather than ratably over the contract period. Previously, we recognized ceded premiums written on these agreements based on the quarterly contractual remittance requirements, and recorded an adjustment at the end of the contract term to reflect the actual ceded premiums written amounts. This change resulted in the acceleration of ceded premiums written to earlier quarters, but had only a de minimis effect on net premiums earned. As a result of this change, ceded premiums written for the three month period ended June 30, 2013 decreased by \$197 million compared to the same period in the prior year. For the six-month period ended June 30, 2013, ceded premiums written increased by \$201 million compared to the same period in the prior year. The impact on net premiums written from this change will continue to reverse throughout the rest of 2013.

Net premiums written for the six-month period ended June 30, 2013, also reflected the timing of a catastrophe bond issuance. We have continued our strategy, adopted in 2010, of improving the allocation of our reinsurance between traditional reinsurance markets and capital markets. During the first quarter of 2013, as part of this strategy, we secured a three-year catastrophe bond providing for up to \$400 million in protection against U.S. hurricanes and earthquakes to the extent both industry losses and our actual losses exceed specific thresholds. The bond transaction reduced net premiums written by \$96 million in the first six months of 2013. Our previous catastrophe bond issuance occurred in the fourth quarter of 2011.

Specialty net premiums written increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to rate increases in small-and medium-sized enterprise markets in the Americas region and in the environmental business, as well as the restructuring of our reinsurance program to retain more favorable risks while continuing to manage aggregate exposure, which increased net premiums written by \$25 million compared to the same period in the prior year.

Specialty net premiums written were unchanged for the six-month period ended June 30, 2013 compared to the same period in prior year.

Financial lines net premiums written increased in the three- and six-month periods ended June 30, 2013 compared to the same period in the prior year, reflecting growth in new business related to targeted growth products, particularly in the EMEA region as well as an improved rate environment globally. Global professional indemnity net premiums written increased by \$25 million and \$60 million in the three- and six-month periods ended June 30, 2013, respectively, due to the restructuring of our reinsurance program, as part of our decision to retain more favorable risks while continuing to manage aggregate exposure, as well as by improved rates and strong new business growth.

Consumer Insurance Net Premiums Written

Consumer Insurance net premiums written decreased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year, primarily due to the impact of foreign exchange as the U.S. dollar strengthened against the Japanese yen. The decreases for the three- and six-month periods ended June 30, 2013

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also reflected the effect of a change in the timing of recognizing the excess of loss reinsurance ceded written premiums discussed above. Excluding these items, net premiums written in the three- and six-month periods ended June 30, 2013 increased compared to the same periods in the prior year as the business continued to build momentum through multiple distribution channels and continuing focus on direct marketing. In the three- and six-month periods ended June 30, 2013, excluding the impact of foreign exchange, net premiums written generated by direct marketing increased by approximately 5.0 percent and 6.7 percent, respectively, compared to the same periods in the prior year, and accounted for approximately 16.2 percent and 16.4 percent, respectively, of Consumer Insurance net premiums written.

A&H net premiums written, excluding foreign exchange, increased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year as a result of our focus on the growth of Fuji Life products, direct marketing, and individual A&H in Asia Pacific. In addition, travel business continued to increase in most geographies across the globe. Americas continued its strategy of repositioning U.S. direct marketing operations and maintaining our pricing discipline and underwriting targets. As a result, several programs in the group personal accident business were not renewed in the first half of 2013.

Personal lines net premiums written, excluding foreign exchange, increased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year as a result of growth in automobile products and the continued execution of our strategic initiative to grow higher value lines of business in non-automobile products. Automobile products reported growth in EMEA as our market share continued to improve over local competition in key countries. Non-automobile products also reported continued growth, including increases in Europe specialty products and personal property in Asia Pacific due to our focus on diversifying the global product mix. For the three- and six-month periods ended June 30, 2013, the increases were partially offset by an increase from the impact of a change in the timing of recognizing the excess of loss ceded premiums written described above of \$38 million and \$85 million, respectively. In addition, the timing of the catastrophe bond issuance in the first quarter of 2013 reduced net premiums written by \$20 million for the six-month period ended June 30, 2013 compared to the prior year period.

AIG Property Casualty Net Premiums Written by Region

The following table presents AIG Property Casualty's net premiums written by region:

<i>(in millions)</i>	Three Months Ended June 30,		Percentage Change in U.S. dollars	Percentage Change in Original Currency	Six Months Ended June 30,		Percentage Change in U.S. dollars	Percentage Change in Original Currency
	2013	2012			2013	2012		
Commercial Insurance:								
Americas	\$ 4,201	\$ 3,966	6%	6%	\$ 7,079	\$ 7,045	%	1%
Asia Pacific	516	538	(4)	4	1,017	990	3	9
EMEA	1,159	1,064	9	11	2,683	2,756	(3)	(2)
Total net premiums written	\$ 5,876	\$ 5,568	6%	7%	\$ 10,779	\$ 10,791	%	1%
Consumer Insurance:								
Americas	\$ 930	\$ 947	(2)%	(1)%	\$ 1,905	\$ 1,975	(4)%	(3)%

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Asia Pacific	1,985	2,154	(8)	3	3,958	4,177	(5)	4
EMEA	475	427	11	14	1,059	973	9	10
Total net premiums written	\$ 3,390	\$ 3,528	(4)%	4%	\$ 6,922	\$ 7,125	(3)%	3%
Other:								
Americas	\$ (3)	\$ (3)	%	NM%	\$ (1)	\$ (3)	67%	NM%
Asia Pacific		2	NM	NM		2	NM	NM
Total net premiums written	\$ (3)	\$ (1)	(200)%	%	\$ (1)	\$ (1)	%	NM%
Total AIG Property Casualty:								
Americas	\$ 5,128	\$ 4,910	4%	5%	\$ 8,983	\$ 9,017	%	%
Asia Pacific	2,501	2,694	(7)	3	4,975	5,169	(4)	5
EMEA	1,634	1,491	10	12	3,742	3,729		1
Total net premiums written	\$ 9,263	\$ 9,095	2%	6%	\$ 17,700	\$ 17,915	(1)%	2%

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The Americas net premiums written increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to a \$61 million benefit from the impact of the change in the timing of recognizing excess of loss ceded premiums written discussed above, rate increases in Commercial Insurance and continued growth in the personal property and private client group in Consumer Insurance. The Americas net premiums written decreased slightly in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to the effect of the increase in ceded premiums written under excess of loss reinsurance agreements discussed above of approximately \$149 million, and approximately \$120 million for the six-month period ended June 30, 2013, due to the timing of a catastrophe bond issuance. These items, which affected both Commercial Insurance and Consumer Insurance, were partially offset by rate increases in Commercial Insurance and continued growth in the personal property and private client group in Consumer Insurance.

Asia Pacific net premiums written decreased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year, primarily due to the strengthening of the U.S. dollar against the Japanese yen. Excluding foreign exchange, net premiums written increased primarily due to an increase in Consumer Insurance, reflecting growth of Fuji Life products and direct marketing business in Japan. The expansion of business in Asia Pacific countries outside of Japan also continued in the three- and six-month periods ended June 30, 2013, supported by growth in individual personal accident insurance, direct marketing and personal lines products. Commercial Insurance increased in the Asia Pacific region primarily due to organic growth and rate increases in Property, Specialty, and Casualty. In addition, our decision to retain more favorable risks in Property and Financial lines increased net premiums written during the three- and six-month periods ended June 30, 2013.

EMEA net premiums written increased in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year, reflecting Commercial Insurance growth due to new business growth, a change in reinsurance strategies to retain more favorable risks in Property and Financial lines, and rate improvements on retained business, as well as growth in Consumer Insurance travel, warranty, and specialty personal lines products. Additionally, for the three-month period ended June 30, 2013, the change in timing of recognizing ceded premiums written under excess of loss reinsurance agreements, discussed above, increased net premiums written by approximately \$57 million, while for the six-month period ended June 30, 2013, it decreased net premiums written by approximately \$173 million.

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The following table presents the AIG Property Casualty combined ratios based on GAAP data and reconciliation to the accident year combined ratio, as adjusted:

	Three Months Ended			Six Months Ended		
	June 30, 2013	2012	Increase (Decrease)	June 30, 2013	2012	Increase (Decrease)
Commercial Insurance						
Loss ratio	72.6	70.7	1.9	68.8	71.5	(2.7)
Catastrophe losses and reinstatement premiums	(6.0)	(5.4)	(0.6)	(3.4)	(3.5)	0.1
Prior year development net of premium adjustments	(4.4)	0.1	(4.5)	(1.6)	(0.2)	(1.4)
Change in discount		1.9	(1.9)		0.9	(0.9)
Accident year loss ratio, as adjusted	62.2	67.3	(5.1)	63.8	68.7	(4.9)
Acquisition ratio	16.3	17.2	(0.9)	16.3	17.6	(1.3)
General operating expense ratio	12.8	11.4	1.4	11.9	11.4	0.5
Expense ratio	29.1	28.6	0.5	28.2	29.0	(0.8)
Combined ratio	101.7	99.3	2.4	97.0	100.5	(3.5)
Catastrophe losses and reinstatement premiums	(6.0)	(5.4)	(0.6)	(3.4)	(3.5)	0.1
Prior year development net of premium adjustments	(4.4)	0.1	(4.5)	(1.6)	(0.2)	(1.4)
Change in discount		1.9	(1.9)		0.9	(0.9)
Accident year combined ratio, as adjusted	91.3	95.9	(4.6)	92.0	97.7	(5.7)
Consumer Insurance						
Loss ratio	58.9	59.2	(0.3)	58.3	58.6	(0.3)
Catastrophe losses and reinstatement premiums	(0.3)	(1.1)	0.8	(0.2)	(0.6)	0.4
Prior year development net of premium adjustments	1.6	1.0	0.6	1.4	0.7	0.7
Accident year loss ratio, as adjusted	60.2	59.1	1.1	59.5	58.7	0.8
Acquisition ratio	25.9	23.5	2.4	25.4	23.6	1.8
General operating expense ratio	15.3	15.0	0.3	15.5	14.9	0.6

Expense ratio	41.2	38.5	2.7	40.9	38.5	2.4
Combined ratio	100.1	97.7	2.4	99.2	97.1	2.1
Catastrophe losses and reinstatement premiums	(0.3)	(1.1)	0.8	(0.2)	(0.6)	0.4
Prior year development net of premium adjustments	1.6	1.0	0.6	1.4	0.7	0.7
Accident year combined ratio, as adjusted	101.4	97.6	3.8	100.4	97.2	3.2
Total AIG Property Casualty						
Loss ratio	68.0	68.9	(0.9)	65.6	68.5	(2.9)
Catastrophe losses and reinstatement premiums	(3.7)	(3.7)		(2.1)	(2.4)	0.3
Prior year development net of premium adjustments	(2.3)	(1.5)	(0.8)	(0.9)	(1.0)	0.1
Change in discount	(0.1)	1.1	(1.2)		0.4	(0.4)
Accident year loss ratio, as adjusted	61.9	64.8	(2.9)	62.6	65.5	(2.9)
Acquisition ratio	20.0	19.6	0.4	19.9	19.9	
General operating expense ratio	14.6	13.9	0.7	14.5	13.9	0.6
Expense ratio	34.6	33.5	1.1	34.4	33.8	0.6
Combined ratio	102.6	102.4	0.2	100.0	102.3	(2.3)
Catastrophe losses and reinstatement premiums	(3.7)	(3.7)		(2.1)	(2.4)	0.3
Prior year development net of premium adjustments	(2.3)	(1.5)	(0.8)	(0.9)	(1.0)	0.1
Change in discount	(0.1)	1.1	(1.2)		0.4	(0.4)
Accident year combined ratio, as adjusted	96.5	98.3	(1.8)	97.0	99.3	(2.3)

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Given the nature of the lines of business and the expenses included in Other, we have determined that the traditional underwriting measures of loss ratio, acquisition ratio, general operating expense ratio and combined ratio do not provide an appropriate measure of underwriting performance. Therefore, these ratios are not separately presented for Other.

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The following table presents AIG Property Casualty accident year catastrophe losses by region:

<i>(in millions)</i>	# of Events	2013			Total	# of Events	2012			Total
		Americas	Asia Pacific	EMEA			Americas	Asia Pacific	EMEA	
Three Months Ended										
June 30,										
Flooding	4	\$ 158	\$	\$ 47	\$ 205	1	\$	\$	\$ 20	\$ 20
Tornadoes and hailstorms	4	111			111					
Windstorms						9	242	66		308
Claims and claim expenses		269		47	316		242	66	20	328
Reinstatement premiums										
Total catastrophe-related charges	8	\$ 269	\$	\$ 47	\$ 316	10	\$ 242	\$ 66	\$ 20	\$ 328
Commercial Insurance		\$ 262	\$	\$ 45	\$ 307		\$ 231	\$ 37	\$ 20	\$ 288
Consumer Insurance		\$ 7	\$	\$ 2	\$ 9		\$ 11	\$ 29	\$	\$ 40
Total severe losses	3			\$ 38		5			\$ 81	
Six Months Ended										
June 30,										
Flooding	5	\$ 158	10	\$ 47	\$ 215	1	\$	\$	\$ 20	\$ 20
Tornadoes and hailstorms	4	111			111					
Windstorms	2	31			31	9	322	66		388
Claims and claim expenses		300	10	47	357		322	66	20	408
Reinstatement premiums										
Total catastrophe-related charges	11	\$ 300	10	\$ 47	\$ 357	10	\$ 322	\$ 66	\$ 20	\$ 408
Commercial Insurance		\$ 286	9	\$ 45	\$ 340		\$ 307	\$ 37	\$ 20	\$ 364
Consumer Insurance		\$ 14	1	\$ 2	\$ 17		\$ 15	\$ 29	\$	\$ 44
Total severe losses	6			\$ 98		7			\$ 123	

* Events shown in the above table are catastrophic insured events having a net impact in excess of \$10 million each. Severe losses are defined as non-catastrophe individual first party losses greater than \$10 million, net of related reinsurance.

Commercial Insurance Quarterly and Year-to-Date Ratios

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The improvement in the accident year loss ratio, as adjusted, for the three- and six-month periods ended June 30, 2013 reflects the realization of benefits from the continued execution of our multi-faceted strategy to enhance risk selection, pricing discipline, exposure management and claims processing. Although the execution of these strategies resulted in a reduction of Casualty net premiums written, it also improved the accident year loss ratio, as adjusted, as we continued to remediate our primary and excess Casualty books in both the Americas and EMEA regions. Financial lines improved due to rate strengthening, restructuring and re-underwriting of certain products. Severe losses in the three- and six-month periods ended June 30, 2013 represented approximately 0.7 point and 1.0 point, respectively, compared to 1.3 points and 1.0 point in the same periods in the prior year, respectively, and are included in the accident year loss ratio, as adjusted. Net prior year adverse development including related premium adjustments represents 4.4 points and 1.6 points of the loss ratio in the three- and six-month periods ended June 30, 2013, respectively, compared to net prior year (favorable)/adverse development of (0.1) point and 0.2 points in the respective prior-year periods. Adverse development on Storm Sandy added 3.2 points and 1.8 points, respectively, to the loss ratios for the three- and six-month periods ended June 30, 2013.

The acquisition ratio decreased by 0.9 points and 1.3 points in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year, primarily due to change in business mix and timing of insurance-related assessments.

The general operating expense ratio increased by 1.4 points and 0.5 points, respectively, in the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year. The increase in employee incentive compensation plan expense, previously discussed, was slightly offset by decreases in bad debt expenses. The lower net premiums earned base contributed approximately 0.7 points and 0.4 points, respectively, to the general operating

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expense ratio. Employee incentive plan expense contributed approximately 1.1 points and 0.8 points, respectively, to the increase in the general operating expense ratio. Bad debt expenses in the three- and six-month periods ended June 30, 2013 represent a decrease of approximately 0.4 points and 0.8 points, respectively, over the same periods in 2012.

Consumer Insurance Quarterly and Year-to-Date Ratios

The accident year loss ratio, as adjusted, increased by 1.1 points and 0.8 points in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year, primarily due to higher losses associated with a warranty retail program, which increased the loss ratio by 1.5 points and 0.8 points, respectively. This was partially offset by improvements in Personal lines, primarily automobile, as a result of rate and underwriting actions taken in current and prior years in Japan, as well as from improvements in the U.S. private client group, Japan property and Asia Pacific A&H business. Storm Sandy favorable development reduced the loss ratio by 0.7 points and 0.6 points in the three- and six-month periods ended June 30, 2013, respectively.

The acquisition ratio increased by 2.4 points and 1.8 points in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year, primarily due to the change in business mix and direct marketing costs in growth-targeted lines of business. Direct marketing spend, excluding commissions, increased by approximately 15 percent and 8 percent in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year.

The general operating expense ratio increased by 0.3 points and 0.6 points in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in the prior year due to the increase in employee incentive compensation plan expense previously discussed, which was partially offset by a decrease of 0.1 points and 0.2 points in infrastructure project costs, respectively. The lower net premiums earned base contributed approximately 0.9 points and 0.6 points, respectively, to the general operating expense ratio.

Other Category

We incurred lower general operating expenses in the three-month period ended June 30, 2013 compared to the same period in the prior year due to reduced costs for infrastructure projects that are not specific to either Commercial Insurance or Consumer Insurance. This contributed approximately 0.2 points to the decrease to the AIG Property Casualty general operating expense ratio in the three-month period ended June 30, 2013 compared to the same period in the prior year. We continue to invest in a number of infrastructure projects, including the implementation of global finance and information systems, compliance with the regulatory requirements of the FRB, legal entity restructuring, and underwriting and claims improvement initiatives.

We incurred higher general operating expenses in the six-month period ended June 30, 2013 compared to the same period in the prior year, primarily related to our implementation of a voluntary early retirement plan in Japan, which contributed approximately 0.2 points in the six-month period ended June 30, 2013 to the AIG Property Casualty general operating expense ratio.

AIG Property Casualty Investing and Other Results

The following table presents AIG Property Casualty's investing and other results:

<i>(in millions)</i>	Three Months Ended			Percentage Change	Six Months Ended		
	June 30, 2013	2012			June 30, 2013	2012	Percentage Change
Net investment income							
Commercial Insurance	\$ 623	\$ 711	(12)%	\$ 1,268	\$ 1,442	(12)%	
Consumer Insurance	92	115	(20)	190	231	(18)	
Other	595	327	82	1,210	703	72	

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Total net investment income	1,310	1,153	14	2,668	2,376	12
Net realized capital gains (losses)	73	23	217	85	(112)	NM
Other income net	10	2	400	13	4	225
Investing and other results	\$ 1,393	\$ 1,178	18%	\$ 2,766	\$ 2,268	22%

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We manage and account for our invested assets on a legal entity basis in conformity with regulatory requirements. Within a legal entity, invested assets are available to pay claims and expenses of both Commercial Insurance and Consumer Insurance operating segments as well as the Other category. Invested assets are not segregated or otherwise separately identified for the Commercial Insurance and Consumer Insurance operating segments.

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, unearned premiums and a capital allocation for each segment. The investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus an illiquidity premium) consistent with the approximate duration of the liabilities. The actual yields in excess of the allocated amounts and the investment income from the assets not attributable to the Commercial Insurance and the Consumer Insurance operating segments are assigned to the Other category. Commencing in the first quarter of 2013, we 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 loss reserves.

Net realized capital gains (losses) and Other income (expense) net are not allocated to Commercial Insurance and Consumer Insurance, but are reported as part of the Other category.

Quarterly and Year-to-Date Net Investment Income

Net investment income is influenced by a number of factors, including the amounts and timing of inward and outward cash flows, the interest rate environment and changes in overall asset allocation. Certain of our structured securities and our additional investment in PICC P&C shares acquired in the PICC P&C rights offering are accounted for under the fair value option, which may also increase the volatility of our net investment income. The increase in the fair value of structured securities in the three- and six-month periods ended June 30, 2013 was offset by a decrease in interest income from available for sale securities. Net investment income increased by \$157 million, or 14 percent, and \$292 million, or 12 percent, in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in 2012, primarily due to the strong performance in alternative investments.

Corporate debt securities continues to be our largest asset category. We continued to reduce our concentration in lower yielding tax-exempt municipal bond holdings and focus on risk-weighted opportunistic investments in higher yielding assets such as structured securities. This asset diversification has achieved an increase in average yields while the overall credit ratings of our fixed maturity investments were largely unchanged. We expect to continue to execute our investment strategy in 2013 to meet our liquidity, duration and credit quality objectives as well as current risk-return and tax objectives.

Net investment income from investment categories other than debt securities increased by \$180 million and \$343 million in the three- and six-month periods ended June 30, 2013, respectively, compared to the same periods in 2012. In the three- and six-month periods ended June 30, 2013, approximately \$129 million and \$256 million, respectively, were attributed to the strong performance of alternative investments, following an approximate 2 percent and 18 percent increase in the S&P 500 Index in the respective periods. Investment income for the six-month period ended June 30, 2013 includes a \$58 million gain related to the PICC P&C shares. Income from the life settlement portfolios also increased by approximately \$40 million during the six-month period ended June 30, 2013 compared to the same period in 2012.

Quarterly and Year-to-Date Net Realized Capital Gains (Losses)

Net realized capital gains in the three- and six-month periods ended June 30, 2013 were driven by gains recognized on the sale of fixed maturity and equity securities of \$88 million and \$159 million in the three- and six-month periods ended June 30, 2013, respectively, partially offset by impairment charges on life settlement contracts of approximately \$38 million and \$87 million in the three- and six-month periods ended June 30, 2013, respectively, as a result of decreases in their estimated fair value and other-than-temporary impairment charges of \$9 million and \$27 million in the three- and six-month periods ended June 30, 2013, respectively.

Net realized capital gains for the three-month period ended June 30, 2012 were primarily driven by gains recognized on the sale of fixed maturity and equity securities in the amount of \$165 million. This was partially offset by other-than-temporary impairments of \$96 million, primarily attributable to publicly traded and privately held equity securities in the Japan portfolios and a decrease in recoverable values for structured securities. In addition, impairment charges of \$56 million related to life settlement contracts were recorded during the period.

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Net realized capital losses for the six-month period ended June 30, 2012 were primarily driven by other-than-temporary impairments of \$299 million, primarily attributable to a decrease in recoverable values for structured securities, and partnership investments and equity securities in an unrealized loss position for more than 12 months. In addition, impairment charges of \$114 million related to life settlement contracts were recorded during the period. These items were partially offset by gains recognized on the sale of fixed maturity securities of \$329 million.

Liability for Unpaid Claims and Claims Adjustment Expense

The following discussion of the consolidated liability for unpaid claims and claims adjustment expenses (loss reserves) presents loss reserves for AIG Property Casualty as well as the loss reserves pertaining to the Mortgage Guaranty reporting unit, which is reported in Other operations.

The following table presents the components of AIG's gross loss reserves by major lines of business on a U.S. statutory basis*:

<i>(in millions)</i>	June 30, 2013	December 31, 2012
Other liability occurrence	\$ 20,538	\$ 21,533
International	16,105	17,453
Workers' compensation (net of discount)	17,052	17,319
Other liability claims made	11,209	11,443
Property	4,201	4,961
Auto liability	3,079	3,060
Products liability	2,177	2,195
Medical malpractice	1,652	1,651
Mortgage guaranty / credit	1,614	1,957
Accident and health	1,569	1,518
Commercial multiple peril	1,359	1,310
Aircraft	1,160	1,065
Fidelity/surety	569	647
Other	1,770	1,879
Total	\$ 84,054	\$ 87,991

* Presented by lines of business pursuant to statutory reporting requirements as prescribed by the National Association of Insurance Commissioners.

AIG's gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses, less applicable discount for future investment income. We regularly review and update the methods and assumptions used to determine loss reserve estimates and to establish the resulting reserves. Any adjustments resulting from this review are reflected in operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase prior years' estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease prior years' estimates of ultimate cost are referred to as favorable development.

The net loss reserves represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance, less applicable discount for future investment income.

The following table classifies the components of net loss reserves by business unit:

<i>(in millions)</i>	June 30, 2013	December 31, 2012
AIG Property Casualty:		
Commercial Insurance	\$ 54,000	\$ 56,462
Consumer Insurance	5,388	5,592
Other	4,662	4,895
Total AIG Property Casualty	64,050	66,949
Other operations Mortgage Guaranty	1,542	1,833
Net liability for unpaid claims and claims adjustment expense	\$ 65,592	\$ 68,782

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The following table presents the components of AIG Property Casualty's loss reserve discount included above:

<i>(in millions)</i>	June 30, 2013	December 31, 2012
U.S. workers' compensation:		
Tabular	\$ 801	\$ 801
Non-tabular	2,394	2,394
Asbestos	41	51
Total	\$ 3,236	\$ 3,246

The following table presents the net reserve discount benefit (charge):

<i>(in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Change in loss reserve discount current accident year	\$ 71	\$ 85	\$ 142	\$ 170
Change in loss reserve discount prior year development		100		87
Accretion of reserve discount	(76)	(91)	(152)	(182)
Net reserve discount benefit (charge)	\$ (5)	\$ 94	\$ (10)	\$ 75

Quarterly Reserving Conclusion

AIG net loss reserves represent our best estimate of our liability for net losses and loss expenses as of June 30, 2013. While we regularly review the adequacy of established loss reserves, there can be no assurance that our ultimate loss reserves will not develop adversely and materially exceed our loss reserves as of June 30, 2013. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on our consolidated financial condition, although such events could have a material adverse effect on our consolidated results of operations for an individual reporting period.

The following table presents the rollforward of net loss reserves:

<i>(in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net liability for unpaid claims and claims adjustment expense at beginning of period	\$ 66,825	\$ 69,873	\$ 68,782	\$ 70,825
Foreign exchange effect	(393)	(701)	(909)	(611)
Other, including dispositions	(79)		(79)	
Change due to NICO reinsurance transaction	22	24	66	33

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Losses and loss expenses incurred:				
Current year, undiscounted	5,380	6,062	10,791	11,902
Prior years, undiscounted*	213	72	160	111
Change in discount	5	(94)	10	(75)
Losses and loss expenses incurred	5,598	6,040	10,961	11,938
Losses and loss expenses paid	6,381	6,871	13,229	13,820
Net liability for unpaid claims and claims adjustment expense at end of period	\$ 65,592	\$ 68,365	\$ 65,592	\$ 68,365

* See tables below for details of prior year development by business unit, accident year and major class of business.

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The following tables summarize development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years, net of reinsurance:

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Prior accident year development by accident year:				
Accident Year				
2012	\$ 72	\$	\$ 34	\$
2011	(10)	(167)	(37)	(324)
2010	9	(25)	(10)	(75)
2009	15	12	(16)	17
2008	13	(34)	28	(27)
2007	27	25	26	18
2006	14	(6)	22	(7)
2005	36	23	40	58
2004	1	18	(12)	(15)
2003 and prior	36	226	85	466
Total	\$ 213	\$ 72	\$ 160	\$ 111

For certain categories of claims (e.g., construction defect claims and environmental claims), losses may sometimes be reclassified to an earlier or later accident year as more information about the date of occurrence becomes available to AIG. These reclassifications are shown as development in the respective years in the table above.

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Prior accident year development by major class of business:				
Commercial Insurance:				
Excess casualty U.S.	\$ 13	\$ 23	\$ (12)	\$ 129
Environmental (post 1986 ongoing) U.S.		63		107
Healthcare U.S.		45		45
Property U.S.	(8)	1	(62)	(62)
Primary casualty U.S.:				
Loss-sensitive	70	(25)	80	(6)
Other	13	20	59	76
Natural catastrophes:				
U.S.	165	(71)	179	(155)
International	(10)	(38)	(23)	(89)
All other, net:				
U.S.	45	(31)	8	11

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International	(31)	(5)	(33)	(40)
Total all other, net	14	(36)	(25)	(29)
Total Commercial Insurance	257	(18)	196	16
Total Consumer Insurance	(53)	(36)	(95)	(51)
Other				
Asbestos and environmental (1986 and prior)				
U.S.	18	45	33	70
International	2	5	11	5
Total asbestos and environmental	20	50	44	75
Environmental (1987 - 2003) U.S.		121	37	142
All other, net				(12)
Total Other	20	171	81	205
Total AIG Property Casualty	224	117	182	170
Other operations - Mortgage Guaranty	(11)	(45)	(22)	(59)
Total	\$ 213	\$ 72	\$ 160	\$ 111

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**ITEM 2 / RESULTS OF OPERATIONS / LIABILITY FOR UNPAID CLAIMS AND CLAIMS
ADJUSTMENT EXPENSE**

Quarterly and Year-to-Date Net Loss Development

In determining the loss development from prior accident years, we analyze and evaluate the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, we examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable. As appropriate, we make adjustments for the difference between the actual and expected loss emergence. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues, such as those related to the U.S. mortgage and housing market.

For the three- and six-month periods ended June 30, 2013, the net adverse development was driven by reserve increases on claims in the Commercial Insurance operating segment and Other that was partially offset by net favorable development in the Consumer Insurance operating segment. The net adverse development in Commercial Insurance was primarily attributable to domestic property exposures mostly due to the increase in reserves for Storm Sandy, and by adverse development in the primary Casualty lines, primarily from loss-sensitive business that was entirely offset by additional premiums and higher than expected legal costs on claims for construction defects policies covering artisan contractors from accident years 2004 and prior. The adverse development on those classes was partially offset by case reductions on some large claims and favorable development on other short-lived classes. The adverse development in Other for the three- and six-month periods ended June 30, 2013 included adverse development on legacy asbestos and environmental exposures (1986 and prior). In addition, the six-month period ended June 30, 2013 included adverse development on run-off environmental exposures (1987 - 2003).

The favorable development in Consumer Insurance was due to lower than expected losses in Personal lines, including decreases in reserves for Storm Sandy, and non-catastrophe losses.

For the three- and six-month periods ended June 30, 2012, the net adverse development was driven by reserve increases on claims in Commercial Insurance and Other, which was partially offset by net favorable development in reserves in Consumer Insurance. The net adverse development in Commercial Insurance was primarily attributable to the increase in reserves on large excess casualty cases, primarily casualty and environmental business (policies written after 1987), partially offset by favorable development in domestic property exposures and catastrophe losses. The favorable development in Consumer Insurance was due to lower than expected losses on natural catastrophe losses in Personal lines. The adverse development in Other included adverse development on run-off environmental exposures (1987 - 2003).

AIG Property Casualty recognized additional premiums on loss-sensitive business of \$70 million and \$80 million for the three- and six-month periods ended June 30, 2013, respectively, compared to returned premiums of \$20 million and \$14 million in the same periods in the prior year, respectively. In addition, we incurred reinstatement premiums of \$14 million and \$25 million for the three- and six-month periods ended June 30, 2013, respectively, associated with the development on prior years' catastrophes.

See AIG Property Casualty Results herein and Other Operations - Other Operations Results - Mortgage Guaranty for further discussion of net loss development.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2012 Annual Report, AIG's reserves relating to asbestos and environmental claims reflect a comprehensive ground-up analysis performed periodically. In the six-month period ended June 30, 2013, AIG increased its gross asbestos reserves by \$23 million and its net asbestos reserves by \$13 million to reflect a small amount of uncollectible reinsurance and accretion of discount. In the six-month period ended June 30, 2013, AIG increased its gross environmental reserves by \$61 million and its net environmental reserves by \$38 million as a result of recent actuarial analyses performed as well as development on one large account.

Table of Contents**ITEM 2 / RESULTS OF OPERATIONS / LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE**

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, AIG Property Casualty also has asbestos reserves relating to foreign risks written by non-U.S. entities of \$127 million gross and \$104 million net as of June 30, 2013. The asbestos reserves relating to non-U.S. risks written by non-U.S. entities were \$140 million gross and \$116 million net as of December 31, 2012.

The following table provides a summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims:

As of or for the Six Months Ended June 30, (in millions)	2013		2012	
	Gross	Net	Gross	Net
Asbestos:				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 4,896	\$ 427	\$ 5,226	\$ 537
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts		69		50
Re-estimation of amounts recoverable under retroactive reinsurance contracts ^(a)		(3)		(17)
Change in net loss reserves due to retroactive reinsurance		66		33
Dispositions	(12)	(12)		
Loss and loss expenses incurred:				
Undiscounted		6		
Change in discount	23	10	57	26
Losses and loss expenses incurred ^(b)	23	16	57	26
Losses and loss expenses paid ^(b)	(252)	(114)	(230)	(116)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 4,655	\$ 383	\$ 5,053	\$ 480
Environmental:				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 309	\$ 163	\$ 204	\$ 119
Dispositions	(1)	(1)		
Losses and loss expenses incurred	61	38	150	74
Losses and loss expenses paid	(58)	(33)	(22)	(15)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 311	\$ 167	\$ 332	\$ 178
Combined:				
Liability for unpaid claims and claims adjustment expense at beginning of year	\$ 5,205	\$ 590	\$ 5,430	\$ 656
Change in net loss reserves due to retroactive reinsurance:				
Paid losses recoverable under retroactive reinsurance contracts		69		50
Re-estimation of amount recoverable under retroactive reinsurance contracts		(3)		(17)
Change in net loss reserves due to retroactive reinsurance		66		33
Dispositions	(13)	(13)		

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Losses and loss expenses incurred:				
Undiscounted	61	44	150	74
Change in discount	23	10	57	26
Losses and loss expenses incurred	84	54	207	100
Losses and loss expenses paid	(310)	(147)	(252)	(131)
Liability for unpaid claims and claims adjustment expense at end of period	\$ 4,966	\$ 550	\$ 5,385	\$ 658

(a) Re-estimation of amounts recoverable under retroactive reinsurance contracts includes effect of changes in reserve estimates and changes in discount.

(b) These amounts exclude benefit from retroactive reinsurance.

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ITEM 2 / RESULTS OF OPERATIONS / AIG LIFE AND RETIREMENT

The results of AIG Life and Retirement for the three- and six-month periods ended June 30, 2013 reflected the following:

Disciplined spread management, primarily through crediting rate changes and opportunistic investments to enhance yields resulted in improvements in base net investment spreads for the three- and six-month periods ended June 30, 2013 compared to the same periods in the prior year. Private equity and hedge fund investment income in the three-month period ended June 30, 2013 increased \$265 million, or 156 percent, compared to the three-month period ended June 30, 2012 and \$473 million or 104 percent for the six-month period ended June 30, 2013 compared to the prior year period, primarily due to favorable equity market conditions and income recorded on several large redemptions from hedge funds.

A decrease in the fair value of our investment in PICC Group of \$84 million and \$53 million in the three- and six-month periods ended June 30, 2013, respectively.

Continued strong sales in retirement income solutions primarily driven by increased variable annuity sales as deposits for the three- and six-month periods ended June 30, 2013 increased by \$878 million and \$1.1 billion, an increase of 65 percent and 45 percent, respectively, over the prior year periods.

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 are distinct product divisions, shared annuity and life operations platforms and a unified all-channel distribution organization with access to all AIG Life and Retirement products. During the first quarter of 2013, AIG Life and Retirement fully implemented these changes to reflect its new structure and now presents its operating results in the two operating segments described below. All prior period amounts presented have been revised to reflect the new structure.

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Retail

Institutional

The Retail operating segment product lines include life insurance and accident and health (A&H), fixed annuities, retirement income solutions, brokerage services and retail mutual funds. These products are marketed under the following brands American General, AGLA, Western National and SunAmerica.

Life Insurance and A&H: Primary products include term life insurance, universal life insurance and A&H products. Life insurance and A&H products are primarily distributed through independent marketing organizations and independent insurance agents under the American General brand. Career agents distribute Life Insurance and A&H products under the AGLA brand. AIG Direct is a proprietary direct-to-consumer distributor of term life insurance and A&H products. The Life Insurance and A&H product line will continue to focus on innovative product development and delivering differentiated life insurance solutions to producers and customers.

Fixed Annuities: Products are primarily marketed under the Western National brand and include single and flexible premium deferred fixed annuities and single premium immediate annuities. The Fixed Annuities business line maintains its leading industry position in the bank distribution channel by designing products in cooperation with banks and offering an efficient and flexible administration platform.

Retirement Income Solutions: Primary products include variable and fixed index annuities that provide asset accumulation and lifetime income through innovative design and hedging strategies. Marketed under the SunAmerica Retirement Markets brand, variable annuities are distributed through banks and national, regional and independent broker-dealer firms. Fixed index annuities are distributed through banks under the Western National brand and through career and independent insurance agents under the American General brand.

Brokerage Services: Includes the operations of Advisor Group, which is one of the largest networks of independent financial advisors in the U.S. Brands include Royal Alliance, SagePoint, FSC Securities and, since its acquisition in November 2012, Woodbury Financial Services, Inc. (Woodbury Financial).

Retail Mutual Funds: Includes the mutual fund and related administration and servicing operations of SunAmerica Asset Management.

The Institutional operating segment product lines include group retirement, group benefits and institutional markets. These products and services are marketed through a variety of brands described below.

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

Group Benefits: In 2012, AIG Life and Retirement and AIG Property Casualty combined their U.S. group benefits businesses, and the combined business now operates as AIG Benefit Solutions. This business will continue to market a wide range of insurance and benefits products for employees (both employer-paid and voluntary) and affinity groups. Primary product offerings include life insurance, accidental death, business travel accident, disability income, medical excess (stop loss), dental, vision and worksite universal life, critical illness and accident.

Institutional Markets: Products primarily include stable value wrap products, structured settlement and terminal funding annuities, private placement variable life and annuities, corporate- and bank-owned life insurance and guaranteed investment contracts. These products are marketed under the American General brand through independent marketing organizations and structured settlement brokers. Institutional Markets has a disciplined and opportunistic approach to growth in these product lines.

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AIG Life and Retirement Results

The following table presents AIG Life and Retirement results:

<i>(in millions)</i>	Three Months Ended			Six Months Ended		
	June 30, 2013	2012	Percentage Change	June 30, 2013	2012	Percentage Change
Retail:						
Revenue:						
Premiums	\$ 389	\$ 411	(5)%	\$ 747	\$ 801	(7)%
Policy fees	491	453	8	978	916	7
Net investment income	1,510	1,460	3	3,167	3,131	1
Other income	382	286	34	747	565	32
Operating expenses:						
Policyholder benefits and claims incurred	689	665	4	1,324	1,317	1
Interest credited to policyholder account balances	584	651	(10)	1,195	1,302	(8)
Amortization of deferred acquisition costs	177	198	(11)	340	376	(10)
Other acquisition and insurance expenses	652	561	16	1,289	1,122	15
Operating income	670	535	25	1,491	1,296	15
Legal settlements	221		NM	297		NM
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense	(69)	70	NM	(98)	51	NM
Net realized capital gains (losses)	515	(179)	NM	604	(564)	NM
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	(160)	(85)	(88)	(121)	42	NM
Pre-tax income	\$ 1,177	\$ 341	245%	\$ 2,173	\$ 825	163%
Institutional:						
Revenue:						
Premiums	\$ 260	\$ 221	18%	\$ 522	\$ 445	17%
Policy fees	132	114	16	260	235	11
Net investment income	1,127	1,061	6	2,347	2,275	3
Other income	37	26	42	65	51	27
Operating expenses:						
Policyholder benefits and claims incurred	494	428	15	957	863	11
Interest credited to policyholder account balances	387	403	(4)	793	814	(3)
Amortization of deferred acquisition costs	25	31	(19)	50	58	(14)
Other acquisition and insurance expenses	169	162	4	340	323	5
Operating income	481	398	21	1,054	948	11
Legal settlements	138		NM	170		NM
Net realized capital gains (losses)	915	505	81	982	424	132
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	(992)	(467)	(112)	(1,090)	(558)	(95)

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Pre-tax income	\$	542	\$	436	24%	\$	1,116	\$	814	37%
Total AIG Life and Retirement:										
Revenue:										
Premiums	\$	649	\$	632	3%	\$	1,269	\$	1,246	2%
Policy fees		623		567	10		1,238		1,151	8
Net investment income		2,637		2,521	5		5,514		5,406	2
Other income		419		312	34		812		616	32
Operating expenses:										
Policyholder benefits and claims incurred		1,183		1,093	8		2,281		2,180	5
Interest credited to policyholder account balances		971		1,054	(8)		1,988		2,116	(6)
Amortization of deferred acquisition costs		202		229	(12)		390		434	(10)
Other acquisition and insurance expenses		821		723	14		1,629		1,445	13
Operating income		1,151		933	23		2,545		2,244	13
Legal settlements		359			NM		467			NM
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities, net of interest expense		(69)		70	NM		(98)		51	NM
Net realized capital gains (losses)		1,430		326	339		1,586		(140)	NM
Changes in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)		(1,152)		(552)	(109)		(1,211)		(516)	(135)
Pre-tax income	\$	1,719	\$	777	121%	\$	3,289	\$	1,639	101%

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Prior period amounts were conformed to the current period presentation. These changes did not affect operating income or pre-tax income. See Note 1 to the Condensed Consolidated Financial Statements for further discussion.

AIG Life and Retirement Quarterly Operating Income

Operating income increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily driven by higher net investment income, increased fee income from growth in our variable annuity account value, and continued active spread management related to our interest rate sensitive businesses, offset in part by an increase in policyholder benefits and claims incurred.

Premiums increased slightly in the three-month period ended June 30, 2013 compared to the same period in the prior year as higher structured settlement and terminal funding annuity premiums were partially offset by lower term insurance and immediate annuity premiums.

Policy fees increased in the three-month period ended June 30, 2013 compared to the same period in the prior year as a result of growth in variable annuity assets under management from higher net flows and positive separate account performance, driven in large part by higher equity markets.

Net investment income increased in the three-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were partially offset by fair value losses of \$84 million on our investment in PICC Group and lower base yields of 15 basis points in the three-month period ended June 30, 2013 compared to the same period in 2012. Recent investment purchases have been made at yields lower than the weighted average yield of the existing portfolio.

Other income primarily consists of commission revenues earned by affiliated broker dealers from the sale of investment products and life insurance. The increase in the three-month period ended June 30, 2013 was primarily as a result of the acquisition of Woodbury Financial in November 2012.

Policyholder benefits and claims incurred increased compared to the three-month period ended June 30, 2012 due to higher structured settlement and terminal funding annuity premiums.

Interest credited to policyholder account balances decreased in the three-month period ended June 30, 2013 due to active crediting rate management actions, which included lowering renewal crediting rates and maintaining disciplined new business pricing.

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Amortization of deferred acquisition costs decreased in the three-month period ended June 30, 2013 due to the impact of favorable separate account performance compared to the same period in the prior year.

Other acquisition and insurance expenses increased in the three-month period ended June 30, 2013 compared to the same period in the prior year, primarily due to higher commission expenses associated with brokerage activities as a result of the acquisition of Woodbury Financial in November 2012.

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AIG Life and Retirement Year-To-Date Operating Income

Operating income increased in the six-month period ended June 30, 2013 compared to the corresponding period in 2012, primarily driven by higher net investment income, increased fee income from growth in our variable annuity account value, and continued active spread management related to our interest rate sensitive businesses.

Premiums increased slightly in the six-month period ended June 30, 2013 compared to the same period in the prior year as higher structured settlement and terminal funding annuity premiums were partially offset by lower term insurance and immediate annuity premiums.

Policy fees increased in the six-month period ended June 30, 2013 compared to the corresponding period in 2012 as a result of growth in variable annuity assets under management from higher net flows and positive separate account performance, driven in large part by higher equity markets in the six-month period ended June 30, 2013.

Net investment income increased in the six-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were partially offset by fair value losses of \$53 million on our investment in PICC Group, the absence of ML II fair value gains of \$246 million that were recognized in the six-month period ended June 30, 2012 and lower base yields of 18 basis points in 2013 compared to the six-month period ended June 30, 2012. The decline in base yields is due to the impact of the current low interest rate environment.

Other income increased in the six-month period ended June 30, 2013 primarily as a result of the acquisition of Woodbury Financial in November 2012.

Policyholder benefits and claims incurred increased in the six-month period ended June 30, 2013 due to higher structured settlement and terminal funding annuity premiums.

Interest credited decreased in the six-month period ended June 30, 2013 due to active crediting rate management actions, which included lowering renewal crediting rates and maintaining disciplined new business pricing.

Amortization of deferred acquisition costs decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year consistent with lower fixed annuity reserves and lower amortization in our term life lines of business.

Other acquisition and insurance expenses increased in the six-month period ended June 30, 2013 primarily due to higher commission expenses associated with brokerage activities as a result of the acquisition of Woodbury Financial in November 2012.

Retail Quarterly Operating Income

Retail operating income increased in the three-month period ended June 30, 2013, primarily driven by higher net investment income, increased fee income from growth in our variable annuity account value, and continued active spread management related to our interest rate sensitive businesses.

Premiums decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year due to lower term insurance and immediate annuity premiums.

Policy fees increased in the three-month period ended June 30, 2013 compared to the same period in the prior year as a result of growth in variable annuity assets under management due to higher net flows and separate account performance driven in large part by higher equity markets.

Net investment income increased in the three-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were partially offset by fair value losses on our investment in PICC Group and lower base yields in the three-month period ended June 30, 2013.

Other income increased in the three-month period ended June 30, 2013 primarily as a result of the acquisition of Woodbury Financial in November 2012.

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Policyholder benefits and claims incurred increased slightly due to higher universal life claims, almost entirely offset by a favorable impact of separate account performance on our guaranteed minimum death benefits reserves in our retirement income solutions line of business compared to the three-month period ended June 30, 2012.

Interest credited decreased in the three-month period ended June 30, 2013 due to active crediting rate management actions that included lowering renewal crediting rates and maintaining disciplined new business pricing.

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Amortization of deferred acquisition costs decreased in the three-month period ended June 30, 2013 compared to the same period in the prior year, consistent with lower fixed annuity reserves and due to the impact of favorable separate account performance in the variable annuity business.

Other acquisition and insurance expenses increased in the three-month period ended June 30, 2013 due to higher commission expenses associated with brokerage activities as a result of the acquisition of Woodbury Financial in November 2012.

Retail Year-To-Date Operating Income

Retail operating income increased in the six-month period ended June 30, 2013, primarily driven by increased fee income from growth in our variable annuity account value, continued active spread management related to our interest rate sensitive businesses and higher net investment income.

Premiums decreased in the six-month period ended June 30, 2013 due to lower term insurance and immediate annuity premiums.

Policy fees increased in the six-month period ended June 30, 2013 compared to the same period in the prior year as a result of growth in variable annuity assets under management from higher net flows and separate account performance, driven in large part by higher equity markets in 2013.

Net investment income increased slightly in the six-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were offset by the absence of ML II fair value gains of \$153 million that were recognized in the six-month period ended June 30, 2012 and lower base yields in the six-month period ended June 30, 2013.

Other income increased in the six-month period ended June 30, 2013 primarily as a result of the acquisition of Woodbury Financial in November 2012.

Interest credited decreased in the six-month period ended June 30, 2013 due to active crediting rate management actions that included lowering renewal crediting rates and maintaining disciplined new business pricing.

Amortization of deferred acquisition costs decreased in the six-month period ended June 30, 2013 compared to the same period in the prior year, consistent with lower fixed annuity reserves. The favorable separate account returns in our retirement income business resulted in lower amortization in the six-month period ended June 30, 2013. If favorable equity market performance continues for the remainder of 2013, an unlocking of assumptions of estimated gross profits used to amortize DAC, VOBA and SIA could occur. However, such positive unlocking, if any, is not expected to be significant to AIG Life and Retirement's operating results.

Other acquisition and insurance expenses increased in the six-month period ended June 30, 2013 due to higher commission expenses associated with brokerage activities as a result of the acquisition of Woodbury Financial in 2012.

Institutional Quarterly Operating Income

Institutional operating income increased in the three-month period ended June 30, 2013, primarily driven by higher net investment income, increased fee income from growth in our group retirement variable annuity account value, and continued active spread management related to our interest sensitive businesses.

Premiums increased in the three-month period ended June 30, 2013 compared to the same period in the prior year due to higher structured settlement and terminal funding annuity premiums.

Policy fees increased in the three-month period ended June 30, 2013 compared to the same period in the prior year as a result of growth in group retirement variable annuity assets under management due to separate account performance driven in large part by higher equity markets.

Net investment income increased in the three-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were partially offset by fair value losses on our investment in PICC Group.

Policyholder benefits and claims incurred increased primarily due to higher structured settlement and terminal funding annuity premiums.

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Interest credited to policyholder account balances decreased slightly in the three-month period ended June 30, 2013 compared to the same period in the prior year as a result of ongoing actions to actively manage interest crediting rates on new and renewal Group Retirement business and maintaining disciplined new business pricing.

Other acquisition and insurance expenses increased in the three-month period ended June 30, 2013 compared to the same period in the prior year due to higher compensation related expenses.

Institutional Year-To-Date Operating Income

Institutional operating income increased in the six-month period ended June 30, 2013, primarily driven by higher net investment income, increased fee income from growth in our group retirement variable annuity account value, and continued active spread management related to our interest sensitive businesses.

Premiums increased in the six-month period ended June 30, 2013 compared to the same period in the prior year due to higher structured settlement and terminal funding annuity premiums.

Policy fees increased in the six-month period ended June 30, 2013 compared to the same period in the prior year as a result of growth in group retirement variable annuity assets under management due to separate account performance driven in large part by higher equity markets in the six-month period ended June 30, 2013.

Net investment income increased in the six-month period ended June 30, 2013 as higher returns on alternative investments and higher call and tender income were partially offset by the absence of ML II fair value gains of \$93 million that were recognized in the six-month period ended June 30, 2012.

Policyholder benefits and claims incurred increased primarily due to higher structured settlement and terminal funding annuity premiums

Other acquisition and insurance expenses increased in the six-month period ended June 30, 2013 compared to the same period in the prior year due to higher compensation related expenses.

Legal Settlements

In the three-month period ended June 30, 2013, we recorded income of \$359 million from settlements with financial institutions that participated in the creation, offering and sale of RMBS from which AIG and its subsidiaries realized losses during the financial crisis. For the six-month period ended June 30, 2013, we recorded income of \$467 million related to these legal settlements.

Changes in Fair Value of Fixed Maturity Securities Designated to Hedge Living Benefit Liabilities

AIG Life and Retirement has a dynamic hedging program designed to manage economic risk exposure associated with changes in equity markets, interest rates and volatilities related to embedded derivative liabilities contained in guaranteed benefit features of variable annuities. We substantially hedge our exposure to equity markets. However, due to regulatory capital considerations, a portion of our interest rate exposure is unhedged. In the first quarter of 2012, we began purchasing U.S. Treasury bonds as a capital-efficient strategy to reduce our interest rate risk exposure over time. As a result of increases in interest rates on U.S. Treasury securities, the fair value of the U.S. Treasury securities used for hedging, net of financing costs, decreased by \$69 million and \$98 million in the three-month and six-month period ended June 30, 2013, respectively, compared to increases of \$70 million and \$51 million, respectively in the prior-year periods.

Net Realized Capital Gains (Losses)

Net realized capital gains were \$1.4 billion in the three-month period ended June 30, 2013 compared to gains of \$326 million in the same period of the prior year. The increase is due to gains from investment sales activity in connection with utilizing capital loss carryforwards as well as \$180 million of fair value gains on variable annuity embedded derivatives, net of hedges. The embedded derivative gains in the three-month period ended June 30, 2013 were primarily due to increases in long-term interest rates.

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Net realized capital gains were \$1.6 billion for the six-month period ended June 30, 2013 compared to losses of \$140 million in the same period of the prior year. The improvement from the prior year is due to higher gains from sales activity, lower other than temporary impairments and fair value gains on variable annuity embedded derivatives of \$131 million compared to losses of \$490 million in the six-month period ended June 30, 2012. The embedded

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derivative gains in the three- and six-month periods ended June 30, 2013 were primarily due to increases in long-term interest rates in 2013.

Changes in Benefit Reserves and DAC, VOBA and SIA Related to Net Realized Capital Gains (Losses)

In connection with utilizing capital loss tax carryforwards, we sold investments in both the three- and six-month periods ended June 30, 2013 and June 30, 2012. These and other sales with subsequent reinvestment at lower yields triggered loss recognition on certain long-term payout annuity contracts of \$1.1 billion in the three-month period ended June 2013, and \$460 million in the same period of 2012, which effectively transferred shadow loss recognition from unrealized losses (included in AOCI) to actual loss recognition (included in Policyholder benefits and claims incurred) and transferred related shadow DAC (included in AOCI) to Amortization of deferred acquisition costs. We recognized a loss of \$1.2 billion and \$488 million for the six-month periods ended June 30, 2013 and 2012, respectively. Additional sales of such securities are contemplated in the remainder of 2013, which could result in additional loss recognition. Assumptions related to investment yields, mortality experience and expenses are reviewed periodically and updated as appropriate, which could also result in additional loss recognition reserves. In addition, due to the reinvestment of the assets at lower yields, earnings related to this payout annuity block of business are expected to decline in the remainder of 2013.

The following table summarizes the major components of the changes in AIG Life and Retirement DAC/VOBA:

Six Months Ended June 30, <i>(in millions)</i>	2013	2012
Balance, beginning of year	\$ 5,672	\$ 6,502
Acquisition costs deferred	409	395
Amortization expense	(390)	(462)
Change in net unrealized gains on securities	469	(353)
Other	(4)	
Balance, end of period	\$ 6,156	\$ 6,082

Because AIG Life and Retirement operates in various markets, the estimated gross profits used to amortize DAC and VOBA are subject to differing market returns and interest yield assumptions in any single period. The combination of market returns and interest rates may lead to acceleration of amortization in some products and simultaneous deceleration of amortization in other products.

DAC and VOBA for insurance-oriented, investment-oriented and group retirement products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant judgment. See Note 10 to the Consolidated Financial Statements in the 2012 Annual Report for additional information on DAC and VOBA recoverability.

Premiums

Premiums represent amounts received on traditional life insurance policies, group benefit policies and deposits on life-contingent payout annuities. Premiums and deposits is a non-GAAP financial measure that includes life insurance premiums and deposits on annuity contracts, GICs and mutual funds.

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

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012

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Premiums and deposits	\$	6,765	\$	5,434	\$	12,345	\$	10,994
Deposits		(5,957)		(4,617)		(10,761)		(9,412)
Other		(159)		(185)		(315)		(336)
Premiums	\$	649	\$	632	\$	1,269	\$	1,246

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The following table presents the components of premiums and deposits by line of business for AIG Life and Retirement:

<i>(in millions)</i>	Three Months Ended			Percentage Change	Six Months Ended		
	June 30, 2013	2012			June 30, 2013	2012	Percentage Change
Premiums and deposits:							
Retail							
Life Insurance & A&H	\$ 840	\$ 850	(1)%	\$ 1,675	\$ 1,682	%	
Fixed Annuities	355	465	(24)	731	1,049	(30)	
Retirement Income Solutions	2,233	1,355	65	3,646	2,514	45	
Retail Mutual Funds	1,216	619	96	2,049	1,368	50	
Closed Blocks	22	40	(45)	51	79	(35)	
Total Retail	\$ 4,666	\$ 3,329	40%	\$ 8,152	\$ 6,692	22%	
Institutional							
Group Retirement	\$ 1,705	\$ 1,738	(2)%	\$ 3,445	\$ 3,582	(4)%	
Institutional Markets	223	194	15	404	375	8	
Group Benefits	171	173	(1)	344	345		
Total Institutional	2,099	2,105		4,193	4,302	(3)	
Total premiums and deposit	\$ 6,765	\$ 5,434	24%	\$ 12,345	\$ 10,994	12%	

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Total premiums and deposits increased in the three- and six-month periods ended June 30, 2013 due to significant increases in retirement income solutions and retail mutual fund deposits.

Retirement income solutions deposits increased, primarily driven by increased variable annuity sales that benefitted from innovative product enhancements, expanded distribution as well as a more favorable competitive environment. Retail mutual fund sales increased in the three- and six-month periods ended June 30, 2013, principally driven by SunAmerica Asset Management Corp.'s Focused Dividend Strategy product offerings. Fixed annuity deposits continued to be negatively affected by the sustained low interest rate environment as consumers are reluctant to purchase these products at the relatively low crediting rates currently offered. Group retirement deposits (which include deposits into mutual funds and fixed options within variable annuities sold in group retirement markets) decreased due to lower levels of individual rollover deposits and periodic deposits in 2013, partially offset by higher mutual fund deposits. Premiums from life insurance products were essentially flat for both the three- and six-month periods ended June 30, 2013.

Net Flows

The following table summarizes net flows for fixed annuities, retirement income solutions, retail mutual funds and group retirement:

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net flows*				
Fixed annuities	\$ (1,264)	\$ (1,009)	\$ (2,263)	\$ (1,827)
Retirement income solutions	1,292	588	1,863	923
Retail mutual funds	688	209	989	579
Group retirement	(299)	238	(415)	465
Total net flows	\$ 417	\$ 26	\$ 174	\$ 140

* Annuities net flows represent premiums and deposits less death, surrender and other withdrawal benefits. Net flows on retail mutual funds are deposits less withdrawals. Net flows presented excludes net flows activity on certain closed blocks of fixed and variable annuities reserves totaling \$6 billion.

Overall net flows increased in both the three- and six month-periods ended June 30, 2013 due to improvements in net flows for retirement income solutions, primarily driven by variable annuity sales and increased retail mutual funds sales, partially offset by lower net flows for fixed annuities and group retirement products. Group retirement net flows declined in the three- and six-month periods ended June 30, 2013, primarily driven by an increase in large group surrenders and, to a lesser extent, higher individual surrenders. Net flows for fixed annuities also declined in both the three- and six-month periods ended June 30, 2013, due to lower fixed annuity deposits resulting from the low interest rate environment and increased surrenders due to higher levels of in-force business reaching the end of the surrender charge period.

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The following table presents AIG Life and Retirement insurance reserves and mutual funds:

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Retail				
Balance at beginning of period, gross	\$ 126,705	\$ 122,726	\$ 123,699	\$ 120,396
Premiums and deposits	4,666	3,329	8,152	6,692
Surrenders and withdrawals	(2,571)	(2,245)	(5,068)	(4,616)
Death, and other contract benefits	(979)	(946)	(1,774)	(1,839)
Subtotal	1,116	138	1,310	237
Change in fair value of underlying assets and reserve accretion, net of policy fees	(102)	(869)	1,643	1,042
Cost of funds	551	609	1,132	1,221
Other reserve changes	(243)	(338)	243	(630)
Balance at end of period	128,027	122,266	128,027	122,266
Reserves related to unrealized investment appreciation	84	407	84	407
Reinsurance ceded	(1,502)	(1,522)	(1,502)	(1,522)
Total insurance reserves and mutual funds	\$ 126,609	\$ 121,151	\$ 126,609	\$ 121,151
Institutional				
Balance at beginning of period, gross	\$ 112,602	\$ 106,824	\$ 110,494	\$ 103,315
Premiums and deposits	2,099	2,105	4,193	4,302
Surrenders and withdrawals	(2,086)	(1,471)	(5,098)	(3,923)
Death, and other contract benefits	(496)	(485)	(973)	(983)
Subtotal	(483)	149	(1,878)	(604)
Change in fair value of underlying assets and reserve accretion, net of policy fees	522	(1,155)	3,615	2,774
Cost of funds	380	403	778	813
Other reserve changes	836	322	848	245
Balance at end of period	113,857	106,543	113,857	106,543
Reserves related to unrealized investment appreciation	215	1,958	215	1,958
Reinsurance ceded	(217)	(245)	(217)	(245)
Total insurance reserves and mutual funds	\$ 113,855	\$ 108,256	\$ 113,855	\$ 108,256
Total AIG Life and Retirement:				
Balance at beginning of period, gross	\$ 239,307	\$ 229,550	\$ 234,193	\$ 223,711
Premiums and deposits	6,765	5,434	12,345	10,994
Surrenders and withdrawals	(4,657)	(3,716)	(10,166)	(8,539)
Death, and other contract benefits	(1,475)	(1,431)	(2,747)	(2,822)

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Subtotal	633	287	(568)	(367)
Change in fair value of underlying assets and reserve accretion, net of policy fees	420	(2,024)	5,258	3,816
Cost of funds	931	1,012	1,910	2,034
Other reserve changes	593	(16)	1,091	(385)
Balance at end of period	241,884	228,809	241,884	228,809
Reserves related to unrealized investment appreciation	299	2,365	299	2,365
Reinsurance ceded	(1,719)	(1,767)	(1,719)	(1,767)
Total insurance reserves and mutual funds	\$ 240,464	\$ 229,407	\$ 240,464	\$ 229,407

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The following table presents selected reserves by surrender charge category and surrender rates:

At June 30, (in millions)	2013			2012		
	Group Retirement Products*	Individual Fixed Annuities	Retirement Income Solutions	Group Retirement Products*	Individual Fixed Annuities	Retirement Income Solutions
No surrender charge	\$ 57,574	\$ 28,756	\$ 1,660	\$ 54,636	\$ 24,506	\$ 1,884
0% 2%	1,552	2,767	16,065	1,336	3,886	14,386
Greater than 2% 4%	1,412	3,595	2,023	1,209	4,305	2,297
Greater than 4%	5,466	19,462	14,442	4,516	24,719	9,173
Non-surrenderable	343	2,566	384	682	3,098	1,262
Total reserves	\$ 66,347	\$ 57,146	\$ 34,574	\$ 62,379	\$ 60,514	\$ 29,002
Surrender rates	9.3%	6.8%	9.7%	8.2%	6.3%	10.8%

* Excludes mutual funds of \$13.0 billion and \$10.7 billion at June 30, 2013 and 2012, respectively.

Low Interest Rate Environment

A variety of factors affect AIG Life and Retirement's businesses, and the life insurance and annuity industry in general, during a prolonged low interest rate environment. Declining interest rates result in higher fair values of assets backing insurance and annuity liabilities and may result in improved persistency of certain lines of business. A sustained low interest rate environment may also result in lower sales of fixed annuities and other products and lower net investment spreads as portfolio cash flows are reinvested at lower rates (spread compression). We have taken a number of actions to mitigate these impacts, as discussed below.

Opportunistic investment in structured securities to increase yields

Continued disciplined approach to new business pricing

Active management of renewal crediting rates

Re-priced certain life insurance and annuity products to reflect current low rate environment

Re-filed certain products to continue lowering minimum rate guarantees

Included product limits where appropriate to minimize exposure to low interest rates

As a result of these actions, we estimate that the effect of interest rates remaining at or near current levels through the end of 2013 on pre-tax operating income would not be material, and would be modestly more significant with respect to 2014 results. In addition, the recent increase in interest rates has improved our outlook for our interest rate sensitive businesses as a rising interest rate environment will increase the rate earned on new investment purchases and, over time, will positively affect overall yields. Steadily increasing interest rates accompanied by a steepening in the yield curve are also favorable for fixed annuity sales as fixed annuities become more competitive in the marketplace compared to alternatives such as bank deposits.

Opportunistic Investments: The majority of assets backing insurance and annuity liabilities consist of intermediate- and long-term fixed maturity securities. We generally purchase assets with the intent of matching expected maturities of the insurance liabilities. An extended low interest rate environment may result in a lengthening of liability maturities from initial estimates, primarily due to lower lapses. Opportunistic investments in structured securities, private placement corporate debt securities and commercial mortgage loans continue to be made to improve yields, increase net investment income and help to offset the impact of the lower interest rate environment.

Disciplined New Business Pricing: New fixed annuity sales have declined in the first six months of 2013 relative to the same period in 2012, due to the relatively low crediting rates offered as a result of our disciplined approach to new business. However, even in the current interest rate environment, we continue to pursue new sales of life and annuity products at targeted net investment spreads. New sales of fixed annuity products generally have minimum

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interest rate guarantees of 1 percent. Universal life insurance interest rate guarantees are generally 2 to 3 percent on new non-indexed products and 1 percent on new indexed products, and are designed to be sufficient to meet targeted net investment spreads.

Active Management of Renewal Crediting Rates: The contractual provisions for renewal of crediting rates and guaranteed minimum crediting rates included in our products may have the effect, in a continued low interest rate environment, of reducing our spreads and thus reducing future profitability. Although we partially mitigate this interest rate risk through our asset-liability management process, product design elements and crediting rate strategies, a prolonged low interest rate environment may negatively affect future profitability. Our annuity and universal life products were designed with contractual provisions that allow crediting rates to be reset at pre-established intervals subject to minimum crediting rate guarantees. We have adjusted, and will continue to adjust, crediting rates to maintain targeted net investment spreads on both new business and in-force business where crediting rates are above minimum guarantees. In addition to annuity and universal life products, certain traditional long-duration products for which we do not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential reserve increases in a prolonged low interest rate environment.

As indicated in the table below, approximately 74 percent of our annuity and universal life account values are at their minimum crediting rates as of June 30, 2013, an increase from 61 percent at December 31, 2012. These products have minimum guaranteed interest rates as of June 30, 2013 ranging from 1 percent to 5.5 percent, with the higher rates representing guarantees on older products.

June 30, 2013	Contractual Minimum Guaranteed Interest Rate Account Values (in millions)	At Contractual Minimum Guarantee	Current Crediting Rates		Total
			1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	
Universal life insurance					
1%	\$	37	\$	5	\$ 42
> 1% 2%		9	39	236	284
> 2% 3%		340	267	1,301	1,908
> 3% 4%		2,117	325	1,397	3,839
> 4% 5%		4,285	185	4	4,474
> 5% 5.5%		322			322
Subtotal	\$	7,110	\$ 816	\$ 2,943	\$ 10,869
Fixed annuities					
1%	\$	2,943	\$ 3,817	\$ 5,279	\$ 12,039
> 1% 2%		13,117	3,418	5,905	22,440
> 2% 3%		32,470	253	4,151	36,874
> 3% 4%		13,967	105	90	14,162
> 4% 5%		8,127		6	8,133
> 5% 5.5%		236		5	241
Subtotal	\$	70,860	\$ 7,593	\$ 15,436	\$ 93,889
Total	\$	77,970	\$ 8,409	\$ 18,379	\$ 104,758
Percentage of total		74%	8%	18%	100%

Effective Product Management: AIG Life and Retirement has a dynamic product management process designed to ensure that new business product offerings appropriately reflect the current low interest rate environment. To the extent that we cannot achieve targeted net investment spreads on new business, products are re-priced or no longer sold. Additionally, current products with higher minimum rate guarantees have been re-filed with lower rates as permitted under state insurance product regulations.

AIG's Other operations include results from Mortgage Guaranty, GCM, DIB, Retained Interests and Corporate & Other (after allocations to AIG's business segments) as presented below.

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Mortgage Guaranty (United Guaranty Corporation or UGC) offers private residential mortgage guaranty insurance, which protects mortgage lenders and investors from loss due to borrower default and loan foreclosure. The coverage we provide which is called mortgage guaranty insurance, mortgage insurance, or simply "MI" enables borrowers to purchase a house with a modest down payment by protecting lenders against the increased risk of borrower default related to high loan-to-value (LTV) mortgages those with less than 20 percent equity.

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

Direct Investment Book consists of a portfolio of assets and liabilities held directly by AIG Parent in the MIP and certain non-derivative assets and liabilities of AIGFP. The management of the DIB portfolio is focused on an orderly wind down to maximize returns consistent with AIG's risk management objectives. Certain non-derivative assets and liabilities of the DIB are accounted for under the fair value option and thus operating results are subject to periodic market volatility.

Retained Interests includes the fair value gains or losses, prior to their sale in 2012, of the AIA ordinary shares retained following the AIA initial public offering and the fair value gains or losses, prior to the FRBNY liquidation of ML III assets in 2012, on the retained interest in ML III.

Corporate & Other consists primarily of interest expense, consolidation and eliminations, expenses of corporate staff not attributable to specific reportable segments, certain expenses related to internal controls and the financial and operating platforms, corporate initiatives, certain compensation plan expenses, corporate level net realized capital gains and losses, certain litigation-related charges and credits, the results of AIG's real estate investment operations and net gains and losses on sale of divested businesses and properties that did not meet the criteria for discontinued operations accounting treatment.

Other Operations Results

The following table presents AIG's Other operations results:

<i>(in millions)</i>	Three Months Ended			Six Months Ended		
	June 30, 2013	2012	Percentage Change	June 30, 2013	2012	Percentage Change
Mortgage Guaranty	\$ 73	\$ 43	70%	\$ 114	\$ 51	124%
Global Capital Markets	175	(25)	NM	402	67	NM
Direct Investment book	591	434	36	920	278	231
Retained interests:						
Change in fair value of AIA securities, including realized gain in 2012		(493)	NM		1,302	NM
Change in fair value of ML III		1,306	NM		2,558	NM
Corporate & Other:						
Other interest expense	(353)	(392)	10	(750)	(773)	3
Corporate expenses, net	(253)	(224)	(13)	(514)	(397)	(29)
Real estate and other non-core businesses	(35)	35	NM	(127)	(77)	(65)
Total Corporate & Other operating loss	(641)	(581)	(10)	(1,391)	(1,247)	(12)

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Consolidation and eliminations	1	(2)	NM	2	1	100
Total Other operations operating income	199	682	(71)	47	3,010	(98)
Legal reserves	(14)	(728)	98	(25)	(734)	97
Legal settlements*	46		NM	48		NM
Loss on extinguishment of debt	(38)	(9)	(322)	(378)	(9)	NM
Net realized capital gains	124	(61)	NM	211	356	(41)
Net loss on sale of divested businesses	(47)		NM	(47)	(3)	NM
Total Other operations pre-tax income (loss)	\$ 270	\$ (116)	NM%	\$ (144)	\$ 2,620	NM%

* Reflects income in the first half of 2013 from settlements with financial institutions that participated in the creation, offering and sale of RMBS from which AIG and its subsidiaries realized losses during the financial crisis.

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The following table presents Mortgage Guaranty results:

<i>(dollars in millions)</i>	Three Months Ended			Percentage Change	Six Months Ended		
	June 30, 2013	2012			June 30, 2013	2012	Percentage Change
Underwriting results:							
Net premiums written	\$ 275	\$ 212	30%	\$ 521	\$ 403	29%	
Increase in unearned premiums	(67)	(33)	(103)	(119)	(55)	(116)	
Net premiums earned	208	179	16	402	348	16	
Claims and claims adjustment expenses incurred	119	126	(6)	250	271	(8)	
Underwriting expenses	49	50	(2)	105	97	8	
Underwriting income (loss)	40	3	NM	47	(20)	NM	
Net investment income	33	40	(18)	67	71	(6)	
Operating income	73	43	70	114	51	124	
Net realized capital gains	2	5	(60)	5	5		
Pre-tax income	\$ 75	\$ 48	56%	\$ 119	\$ 56	113%	
Key metrics:							
New insurance written	\$ 13,979	\$ 8,576	63%	\$ 24,637	\$ 15,139	63%	

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Domestic first-lien:			
Risk in force	\$	32,349	\$ 26,608
60+ day delinquency ratio on primary loans ^(a)		7.1%	10.3%
Domestic second-lien:			
Risk in force ^(b)	\$	1,158	\$ 1,366

(a) Based on number of policies.

(b) Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.

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Mortgage Guaranty Quarterly Results

Mortgage Guaranty recorded an increase in operating income in the three-month period ended June 30, 2013 compared to the same period in 2012 primarily due to:

a \$29 million increase in net premiums earned, reflecting an \$18 million increase in first-lien premiums earned due to growth of the book of business over the last several quarters and an \$11 million increase in net premiums earned due to a settlement of a second-lien contract that accelerated earned premiums in the period;

a \$7 million decrease in claims and claims adjustment expenses, which includes a \$15 million net decrease from settlements and commutations in first-lien, second-lien, and international businesses, partially offset by less favorable prior year loss development; and

a \$2 million benefit in underwriting expenses as a result of a settlement agreement on remedy claims. Remedy claims represent the indemnification for losses incurred by lenders arising from obligations contractually assumed by UGC as a result of underwriting services provided to lenders during times of high loan origination activity.

In addition to the total \$28 million positive impact to quarterly results from settlements and commutations cited above, UGC released \$21 million in reserves during the period.

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Mortgage Guaranty Year-to-Date Results

Mortgage Guaranty recorded an increase in operating income in the six-month period ended June 30, 2013 compared to the same period in 2012 primarily due to:

a \$54 million increase in net premiums earned, reflecting a \$64 million increase due to growth in first-lien insurance written, partially offset by a decline on second-lien and international businesses, both of which were placed into run-off during 2008; and

a \$21 million decrease in claims and claims adjustment expenses incurred, primarily due to a \$36 million decline in second-lien, student loan and international claims and claims adjustment expenses, partially offset by a \$15 million increase in first-lien claims and claims adjustment expense. Declines in the second-lien and student loan businesses reflect a decrease in net claims and claims adjustment expenses as collections of recoveries on prior paid losses continued and more contracts reached their respective stop loss limits; the decline in international claims and claims adjustment expenses reflects improving loss experience during the year and the de-risking of the international business through commutations as noted above. First-lien claims and claims adjustment expenses increased, primarily reflecting lower favorable loss development.

New insurance written, which represents the original principal balance of the insured mortgages, increased due to the market acceptance of UGC's risk-based pricing model by an increasing number of lenders as well as the addition and expansion of distribution channels. See Outlook Other Operations Mortgage Guaranty for further discussion.

Global Capital Markets Operations

Global Capital Markets Quarterly Results

GCM reported pre-tax and operating income in the three-month period ended June 30, 2013 compared to pre-tax and operating losses in the same period in 2012, primarily due to improvement in net credit valuation adjustments on derivative assets and liabilities and improvement in unrealized market valuations related to the super senior credit default swap (CDS) portfolio.

Net credit valuation adjustment gains of \$81 million were recognized in the three-month period ended June 30, 2013, compared to net credit valuation losses of \$54 million for the same period in 2012. The improvement resulted primarily from gains on derivative assets for the second quarter of 2013 due to the tightening of counterparty credit spreads compared to losses on those assets for the second quarter of 2012 due to the widening of such spreads. These gains were partially offset by losses on derivative liabilities for the second quarter of 2013 due to the tightening of AIG's credit spreads compared to gains on those liabilities for the second quarter of 2012 due to the widening of such spreads.

Unrealized market valuation gains of \$131 million and \$57 million, were recognized in the three-month periods ended June 30, 2013 and 2012, respectively. The improvement resulted primarily from CDS transactions written on multi-sector collateralized debt obligations (CDOs) driven by amortization and price movements within the CDS portfolio.

Global Capital Markets Year-to-Date Results

GCM's pre-tax and operating income increased in the six-month period ended June 30, 2013 compared to the same period in 2012 primarily due to improvement in net credit valuation adjustments on derivative assets and liabilities and improvement in unrealized market valuations related to the CDS portfolio.

Net credit valuation adjustment gains of \$134 million were recognized in the six-month period ended June 30, 2013, compared to net credit valuation losses of \$76 million for the same period in 2012. The improvement resulted primarily from higher gains on derivative assets due to more significant tightening of counterparty credit spreads in the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012 and lower losses on derivative liabilities due to less significant tightening of AIG's credit spreads in the six-month period ended June 30, 2013 compared to the six-month period ended June 30, 2012.

Unrealized market valuation gains of \$302 million and \$197 million, were recognized in the six-month periods ended June 30, 2013 and 2012, respectively. The improvement resulted primarily from CDS transactions written on multi-sector CDOs driven by amortization and price movements within the CDS portfolio.

Table of Contents**ITEM 2 / RESULTS OF OPERATIONS / OTHER OPERATIONS****Direct Investment Book Results**

The following table presents Direct Investment book results:

<i>(in millions)</i>	Three Months Ended			Percentage Change	Six Months Ended		
	June 30,				June 30,		
	2013	2012		2013	2012	Percentage Change	
Operating income	\$ 591	\$ 434	36%	\$ 920	\$ 278	231%	
Legal settlements	27		NM	27		NM	
Loss on extinguishment of debt			NM	(4)		NM	
Net realized capital gains	102	51	100	89	455	(80)	
Pre-tax income	\$ 720	\$ 485	48%	\$ 1,032	\$ 733	41%	

Direct Investment Book Quarterly Results

DIB pre-tax income and operating income increased in the three-month period ended June 30, 2013 compared to the same period in 2012 primarily due to fair value appreciation on asset-backed security (ABS) CDOs that were acquired in the fourth quarter of 2012, partially offset by less significant net credit valuation adjustments on assets and liabilities for which the fair value option was elected. The improvement in pre-tax income was also driven by unrealized gains on interest rate swap hedge positions related to ABS CDO investments.

Fair value appreciation on ABS CDOs was \$478 million for the three-month period ended June 30, 2013 driven primarily by improved collateral pricing due to improvements in home price indices and amortization of the underlying collateral. The unrealized gains on interest rate swap hedge positions were the result of interest rate increases late in the second quarter of 2013.

Net credit valuation adjustment gains of \$67 million and \$321 million were recognized for the three-month periods ended June 30, 2013 and 2012, respectively. The decrease resulted primarily from a decline in the portfolio size due to sales and maturities as well as reduced counterparty spread narrowing compared to the prior year quarter.

Direct Investment Book Year-to-Date Results

DIB pre-tax income and operating income increased in the six-month period ended June 30, 2013 compared to the same period in 2012 primarily due to fair value appreciation on ABS CDOs that were acquired in the fourth quarter of 2012 and improvement in net credit valuation adjustments on assets and liabilities for which the fair value option was elected. The improvement in pre-tax income was partially offset by lower Net realized capital gains.

Fair value appreciation on ABS CDOs was \$586 million for the six-month period ended June 30, 2013 driven primarily by improved collateral pricing due to improvements in home price indices and amortization of the underlying collateral.

Net credit valuation adjustment gains of \$293 million and \$130 million were recognized for the six-month periods ended June 30, 2013 and 2012, respectively. The improvement resulted primarily from lower losses on liabilities, partially offset by lower gains on assets due to less significant tightening of both AIG's credit spreads and counterparty credit spreads in the six-month period ended June 30, 2013 compared to the same period in 2012.

The change in Net realized capital gains was driven by a \$426 million gain on the sale of 35.7 million common units of The Blackstone Group L.P. in the first quarter of 2012, partially offset by unrealized gains on interest rate swap hedge positions as a result of interest rate increases late in the second quarter of 2013.

Table of Contents**ITEM 2 / RESULTS OF OPERATIONS / OTHER OPERATIONS**

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

<i>(in millions)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Counterparty Credit Valuation Adjustment on Assets:				
Bond trading securities	\$ 49	\$ 248	\$ 299	\$ 602
Loans and other assets	(1)	10	9	23
Increase in assets	48	258	308	625
AIG's Own Credit Valuation Adjustment on Liabilities:				
Notes and bonds payable	(4)	44	(40)	(399)
Guaranteed Investment Agreements	23	17	28	(73)
Other liabilities		2	(3)	(23)
Decrease (increase) in liabilities	19	63	(15)	(495)
Net increase to operating income	\$ 67	\$ 321	\$ 293	\$ 130

Retained Interests**Change in Fair Value of AIA Securities Prior to Their Sale**

On March 7, 2012, AIG sold approximately 1.72 billion ordinary shares of AIA and recognized a gain of \$0.6 billion. The fair value of AIG's remaining interest in AIA securities decreased \$493 million for the three month period ended June 30, 2012 and increased \$0.7 billion for the six-month period ended June 30, 2012.

Change in Fair Value of ML III Prior to Liquidation

The gains attributable to AIG's interest in ML III for the six months ended June 30, 2012 were based in part on sales of ML III assets by the FRBNY.

Corporate & Other**Quarterly and Year-to-Date Corporate & Other Results**

Corporate & Other reported an increase in operating losses in both the three- and six-month periods ended June 30, 2013, compared to the same periods in 2012 primarily due to higher incentive compensation costs due to performance relative to incentive targets in 2013 offset by reductions in interest expense from overall reduced debt.

Legal Reserves

Legal reserves in 2012 relate to increased estimated litigation liability during the second quarter of 2012 based on developments in several actions.

Net Loss on Sale of Divested Businesses

On May 15, 2013, we entered into an arrangement to sell certain non-core insurance subsidiaries, which we expect, subject to customary closing conditions, will close before the end of the year. We recognized a pre-tax loss in connection with this sale of approximately \$47 million during the second quarter of 2013.

Table of Contents**ITEM 2 / RESULTS OF OPERATIONS / DISCONTINUED OPERATIONS**

Income (loss) from Discontinued Operations is comprised of the following:

<i>(in millions)</i>	Three Months Ended		Six Months Ended	
	June 30,	2012	June 30,	2012
ILFC	\$ 638	\$ 82	\$ 1,234	\$ 200
Net gain (loss) on sale	(591)	(8)	(1,027)	12
Income from discontinued operations	47	74	207	212
Income tax expense (benefit)	14	(105)	81	(31)
Income from discontinued operations, net of tax	\$ 33	\$ 179	\$ 126	\$ 243

Significant items affecting the comparison of results from discontinued operations in the three- and six-month periods ended June 30, 2013 included pre-tax income of \$638 million and \$1.2 billion, respectively, largely offset by a pre-tax loss on the sale of ILFC of \$619 million and \$1.2 billion for the three- and six-month periods ended June 30, 2013, respectively, both reflecting the absence of depreciation and amortization expense because ILFC is classified as held for sale, and a pre-tax gain of \$28 million and \$145 million for the three- and six-month periods ended June 30, 2013, respectively, in connection with the sale of American Life Insurance Company (ALICO) mostly attributable to refund of taxes, interest and penalties, recognized in the first quarter of 2013.

See Note 4 to the Condensed Consolidated Financial Statements for further discussion of discontinued operations.

The following table presents AIG's consolidated comprehensive income (loss):

<i>(in millions)</i>	Three Months Ended			Six Months Ended		
	June 30,	2012	Percentage Change	June 30,	2012	Percentage Change
Net income	\$ 2,758	\$ 2,339	18%	\$ 4,989	\$ 5,788	(14)%
Change in unrealized appreciation (depreciation) of investments	(10,084)	2,080	NM	(11,277)	4,791	NM
Change in deferred acquisition costs adjustment and other	854	(119)	NM	543	(498)	NM
Change in future policy benefits	2,116	(101)	NM	2,540	(67)	NM
Change in foreign currency translation adjustments	(273)	(512)	47	(566)	(425)	(33)
Change in net derivative gains arising from cash flow hedging activities		4	NM		8	NM
Change in retirement plan liabilities adjustment	34	17	100	77	46	67

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Deferred tax asset (liability)	2,532	(459)	NM	3,127	(1,220)	NM
Other comprehensive income (loss)	(4,821)	910	NM	(5,556)	2,635	NM
Comprehensive income (loss)	(2,063)	3,249	NM	(567)	8,423	NM
Total comprehensive income attributable to noncontrolling interests	6	(1)	NM	31	245	(87)
Comprehensive income attributable to AIG	\$ (2,069)	\$ 3,250	NM%	\$ (598)	\$ 8,178	NM%

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ITEM 2 / RESULTS OF OPERATIONS / CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

Change in Unrealized Appreciation of Investments

The increases in unrealized depreciation of investments in 2013 were primarily attributable to depreciation in bonds available for sale due to an increase in interest rates on investment grade fixed maturity securities, particularly during the second quarter of 2013, partially offset by narrowing spreads of high yield securities.

The increases in unrealized appreciation of investments in 2012 were primarily attributable to appreciation in bonds available for sale due to continued improvements in financial market conditions and significant spread tightening partially offset by higher U.S. treasury rates.

Change in Deferred Acquisition Costs Adjustment and Other

The increases in DAC in 2013 compared to 2012 were primarily the result of decreases in the unrealized appreciation of investments supporting interest-sensitive products.

Change in Future Policy Benefits

The change in future policy benefits reserves in 2013 is due to loss reserve recognition in net income resulting from sales of securities in unrealized gain positions as well as decreases in unrealized gains resulting from increases in long term rates. The change in future policy benefits reserves in 2012 was driven by declines in interest rates during the three-month period ended June 30, 2012. Changes in unrealized appreciation of investments result in changes to future policy benefits which are recorded through Other comprehensive income. This change in future policy benefits assumes that the securities underlying certain traditional long-duration products are sold at their stated aggregate fair value and reinvested at current yields.

Change in Foreign Currency Translation Adjustments

Foreign currency translation adjustments decreased for the three months ended June 30, 2013 and 2012 due to the strengthening of the U.S. dollar against the Japanese yen.

Foreign currency translation adjustments decreased for the six months ended June 30, 2013 and 2012 due to the strengthening of the U.S. dollar against the euro and Japanese yen.

Change in Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities

The decline in net derivative gains in 2013 primarily reflects the de-designation of all derivatives receiving cash flow hedging treatment in 2012.

Change in Retirement Plan Liabilities Adjustment

The increases in retirement plan liabilities adjustment for the three- and six-months periods ended June 30, 2013 compared to the same periods in 2012 were primarily due to the strengthening of the U.S. dollar against the Japanese yen.

Deferred Taxes on Other Comprehensive Income

For the three- and six-month periods ended June 30, 2013, the effective tax rates on pre-tax Other comprehensive loss were 34.4 percent and 36.0 percent, respectively. The effective tax rates differ from the statutory 35 percent rate primarily due to a decrease in the valuation allowance and the effect of foreign operations.

For the three- and six-month periods ended June 30, 2012, the effective tax rates on pre-tax Other comprehensive income were 33.5 percent and 31.7 percent, respectively. The effective tax rates differ from the statutory 35 percent rate primarily due to a decrease in the valuation allowance and the effect of foreign operations.

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ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity framework established by Enterprise Risk Management (ERM). Our liquidity framework is designed to measure both the amount and composition of our liquidity to meet financial obligations in both normal and stressed markets. See Part II, Item 7. MD&A Enterprise Risk Management Risk Appetite, Identification, and Measurement in the 2012 Annual Report and Enterprise Risk Management Liquidity Risk Management below for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We and our insurance subsidiaries must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both AIG and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis, and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both the AIG and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs, loss of some sources of liquidity or capital, or both. In addition, regulatory, and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders, share purchases and acquisitions.

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ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES

Sources

AIG Parent Funding from Subsidiaries

During the first six months of 2013, we collected \$792 million in cash dividends from AIG Property Casualty subsidiaries and approximately \$1.9 billion in cash dividends and loan repayments from AIG Life and Retirement subsidiaries.

ALICO Escrow Release

On May 1, 2013, \$547 million held in escrow to secure indemnifications provided to MetLife under the ALICO stock purchase agreement was released to AIG.

Uses

Debt Reduction

During the first six months of 2013, we repaid approximately \$5.6 billion of debt as follows:

We redeemed \$1.1 billion aggregate principal amount of our 7.70% Series A-5 Junior Subordinated Debentures and \$750 million aggregate principal amount of our 6.45% Series A-4 Junior Subordinated Debentures, in each case, for a redemption price of 100 percent of the principal amount plus accrued interest.

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

We also made other repayments of approximately \$2.7 billion, which include repayments by AIG Parent of \$1.4 billion.

Purchase of Warrants

We paid approximately \$25 million in the first quarter of 2013 to purchase warrants issued in 2008 and 2009 to the Department of the Treasury.

See Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Parent Sources and Uses of Liquidity and Capital Resources of AIG Parent herein for further discussion.

Table of Contents**ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES****Analysis of Sources and Uses of Cash**

The following table presents selected data from AIG's Condensed Consolidated Statements of Cash Flows:

Six Months Ended June 30,
(in millions)

	2013	2012
Sources:		
Net cash provided by operating activities continuing operations	\$ 319	\$ 206
Net cash provided by operating activities discontinued operations	1,355	1,426
Net cash provided by changes in restricted cash	956	
Net cash provided by other investing activities	5,115	11,155
Issuance of long-term debt	486	4,045
Net cash provided by other financing activities		2,409
Total sources	8,231	19,241
Uses:		
Changes in restricted cash		(284)
Changes in policyholder contract balances	(1,309)	(268)
Repayments of long-term debt	(5,403)	(5,271)
Repayment of Department of Treasury SPV Preferred Interests		(8,636)
Purchases of AIG Common Stock		(5,000)
Net cash used in other financing activities	(829)	
Total uses	(7,541)	(19,459)
Effect of exchange rate changes on cash	(70)	(24)
Increase (decrease) in cash	\$ 620	\$ (242)

The following table presents a summary of AIG's Condensed Consolidated Statements of Cash Flows:

Six Months Ended June 30,
(in millions)

	2013	2012
Summary:		
Net cash provided by (used in) operating activities	\$ 1,674	\$ 1,632
Net cash provided by (used in) investing activities	6,071	10,871
Net cash provided by (used in) financing activities	(7,055)	(12,721)
Effect of exchange rate changes on cash	(70)	(24)
Increase (decrease) in cash	620	(242)
Cash at beginning of year	1,151	1,474

Change in cash of businesses held for sale		(9)	
Cash at end of period	\$	1,762	\$ 1,232

Operating Cash Flow Activities

Interest payments totaled \$2.4 billion for the six months ended June 30, 2013 compared to \$2.1 billion in the first six months of 2012. Excluding interest payments, we generated positive operating cash flow of \$4.1 billion and \$3.7 billion in the first six months of 2013 and 2012, respectively.

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Cash used in operating activities of AIG Property Casualty was \$0.4 billion for the first six months of 2013 compared to cash provided of \$0.5 billion in the first six months of 2012, primarily reflecting the timing of the payments related to catastrophe losses.

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ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities of AIG Life and Retirement was \$0.9 billion for the first six months of 2013 compared to \$1.0 billion in the first six months of 2012. These cash flows reflected operating performance that was generally consistent for AIG Life and Retirement in both periods.

Cash provided by operating activities of discontinued operations was \$1.4 billion for both the first six months of 2013 and 2012.

Investing Cash Flow Activities

Net cash provided by investing activities for the six months ended June 30, 2013 includes approximately \$1.3 billion of cash collateral received in connection with the securities lending program launched during 2012 by AIG Life and Retirement.

Net cash provided by investing activities in the first six months of 2012 includes the following items:

approximately \$6.0 billion in gross proceeds from the sale of 1.72 billion AIA ordinary shares;

approximately \$1.9 billion of cash collateral received in connection with the securities lending program launched during 2012 by AIG Life and Retirement; and

approximately \$1.6 billion in distributions from the sale of the underlying assets held by ML II.

Financing Cash Flow Activities

Net cash used in financing activities for the first six months of 2013 includes:

approximately \$1.3 billion in the aggregate to purchase, in cash tender offers, junior subordinated debentures we issued, capital securities issued by three statutory trusts controlled by AIGLH and senior debentures we had assumed that were originally issued by SunAmerica Inc;

approximately \$1.1 billion to redeem our 7.70% Series A-5 Junior Subordinated Debentures; and

approximately \$750 million to redeem our 6.45% Series A-4 Junior Subordinated Debentures.

Net cash used in financing activities during the first six months of 2012 includes:

\$8.6 billion pay down of the Department of the Treasury's AIA SPV preferred interests; and

total payments of approximately \$5.0 billion for the purchase of approximately 169 million shares of AIG Common Stock.

Liquidity and Capital Resources of AIG Parent and Subsidiaries

AIG Parent

As of June 30, 2013, AIG Parent had approximately \$14.7 billion in liquidity resources. AIG Parent's liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade, fixed maturity securities. Fixed maturity securities consist of U.S. government and government sponsored entity securities, U.S. agency mortgage-backed securities, and corporate and municipal bonds. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and tenor. During the first six months of 2013, upon an assessment of its immediate and longer-term funding needs, AIG Parent purchased publicly traded, intermediate term, investment grade, fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity. AIG Parent liquidity resources are monitored through the use of various internal liquidity risk measures. AIG Parent's primary sources of liquidity are dividends, distributions, loans, and other payments from subsidiaries, as well as credit and contingent liquidity facilities. AIG Parent's primary uses of liquidity are for debt service, capital and liability management, operating expenses and subsidiary capital needs.

AIG Parent's primary sources of capital include dividends and distributions from subsidiaries. AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain AIG Property Casualty, AIG Life and Retirement and Mortgage Guaranty subsidiaries to facilitate the transfer of capital and liquidity within AIG. We expect

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these CMAs to continue to enhance AIG's capital management practices, and help manage the flow of capital between AIG Parent and these subsidiaries. We have entered into CMAs with certain other insurance subsidiaries in 2013. See AIG Property Casualty, AIG Life and Retirement and Other Operations Mortgage Guaranty below for additional information. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to our creditors, debt-holders and insurance company subsidiaries. We expect to access the debt markets from time to time to meet funding requirements as needed.

The following table presents AIG Parent's liquidity sources:

<i>(In millions)</i>	As of June 30, 2013
Cash and short-term investments ^{(a)(b)}	\$ 8,123
Unencumbered fixed maturity securities ^(c)	2,920
Total AIG Parent liquidity	11,043
Available capacity under syndicated credit facility ^(d)	3,127
Available capacity under contingent liquidity facility ^(e)	500
Total AIG Parent liquidity sources	\$ 14,670

(a) Cash and short-term investments include reverse repurchase agreements totaling \$6.3 billion as of June 30, 2013.

(b) \$5.4 billion of cash and short-term investments are allocated toward future maturities of liabilities and contingent liquidity stress needs of DIB and GCM as of June 30, 2013.

(c) Unencumbered securities consist of publicly traded, intermediate-term investment grade rated fixed maturity securities. Fixed maturity securities consist of U.S. government and government sponsored entities securities, U.S. agency mortgage-backed securities, and corporate and municipal bonds.

(d) For additional information relating to this syndicated credit facility, see Credit Facilities below.

(e) For additional information relating to the contingent liquidity facility, see Contingent Liquidity Facilities below.

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Sources

During the first six months of 2013 we collected \$792 million in cash dividends from AIG Property Casualty subsidiaries and approximately \$1.9 billion in cash dividends and loan repayments from AIG Life and Retirement subsidiaries.

On May 1, 2013, \$547 million held in escrow to secure indemnifications provided to MetLife under the ALICO stock purchase agreement was released to AIG.

Uses

During the first six months of 2013, we:

redeemed \$1.1 billion aggregate principal amount of our 7.70% Series A-5 Junior Subordinated Debentures and \$750 million aggregate principal amount of our 6.45% Series A-4 Junior Subordinated Debentures, in each case for a redemption price of 100 percent of the principal amount plus accrued and unpaid interest;

purchased, in cash tender offers:

for an aggregate purchase price of approximately \$1 billion, approximately 77 million British pounds aggregate principal amount of our 8.625% Series A-8 Junior Subordinated Debentures, approximately 182 million Euro aggregate principal amount of our 8.000% Series A-7 Junior Subordinated Debentures, approximately \$79 million aggregate principal amount of our 6.25% Series A-1 Junior Subordinated Debentures and approximately \$366 million aggregate principal amount of our 8.175% Series A-6 Junior Subordinated Debentures;

for an aggregate purchase price of approximately \$211 million, approximately \$19 million liquidation amount of 8¹/₂% Capital Trust Pass-Through Securities, approximately \$114 million liquidation amount of 7.57% Capital Securities, Series A and approximately \$29 million liquidation amount of 8¹/₈% Capital Securities, Series B, all of which were issued by statutory trusts controlled by AIGLH; and

for an aggregate purchase price of approximately \$61 million, approximately \$62 million aggregate principal amount of 5.60% Senior Debentures we had assumed that were originally issued by SunAmerica Inc.;

repaid \$1.4 billion of debt, including \$181 million of MIP long-term debt, and made interest payments totaling \$1.1 billion; and

paid approximately \$25 million in the aggregate to purchase a warrant issued to the Department of the Treasury in 2008 that provided the right to purchase approximately 2.7 million shares of AIG Common Stock at \$50.00 per share and a warrant issued to the Department of Treasury in 2009 that provided the right to purchase up to 150 shares of AIG Common Stock at \$0.00002 per share.

AIG Property Casualty

We expect that AIG Property Casualty subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. AIG Property Casualty subsidiaries' liquidity resources are held in the form of cash, short-term investments and

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publicly traded, investment grade, fixed maturity securities. These securities are eligible to be pledged to a Federal Home Loan Bank (FHLB) in the event liquidity levels are insufficient to meet obligations.

AIG Property Casualty paid \$792 million in cash dividends to AIG Parent in the first six months of 2013.

AIG Parent could be required to provide additional funding to AIG Property Casualty subsidiaries to meet capital or liquidity needs under certain circumstances, including:

large catastrophes that may require AIG to provide additional support to our affected operations;

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ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES

downgrades in AIG's credit ratings that could put pressure on the insurer financial strength ratings of AIG's subsidiaries which could result in non-renewals or cancellations by policyholders and adversely affect the subsidiary's ability to meet its own obligations;

increases in market interest rates that may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital; and

other potential events that could cause a liquidity strain, including economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

AIG Parent, AIG Property Casualty Inc. and certain AIG Property Casualty domestic insurance subsidiaries are parties to a consolidated CMA. Among other things, the CMA provides that AIG Parent will maintain the total adjusted capital of these AIG Property Casualty insurance subsidiaries, measured as a group (the Fleet), at or above the specified minimum percentage of the Fleet's projected total authorized control level Risk-Based Capital (RBC). In addition, the CMA provides that if the total adjusted capital of the Fleet exceeds that same specified minimum percentage of the Fleet's total authorized control level RBC, subject to approval by their respective boards, and compliance with applicable insurance laws, the AIG Property Casualty insurance subsidiaries would declare and pay ordinary dividends to their respective equity holders up to an amount necessary to reduce the Fleet's projected or actual total adjusted capital to a level equal to or not materially greater than such specified minimum percentage. As of June 30, 2013, the specified minimum percentage was 325 percent.

For the first six months of 2013, cash dividends of approximately \$480 million were paid pursuant to the CMA and AIG Parent was not required to make any capital contributions pursuant to the CMA.

On May 17, 2013, Lexington Insurance Company (Lexington) purchased stock in the FHLB of Boston, thereby becoming a member of the FHLB of Boston. Additionally, National Union Fire Insurance Company of Pittsburgh, Pa. (NUFI) is a member of the FHLB of Pittsburgh and Chartis Specialty Insurance Company (CSI) is a member of the FHLB of Chicago. FHLB membership provides participants with access to various services, including access to low-cost advances through pledging of certain mortgage-backed securities, government and agency securities and other qualifying assets. These advances may be used to provide an additional source of liquidity for balance sheet management or contingency funding purposes. As of June 30, 2013, there were no FHLB advances outstanding for NUFI, CSI or Lexington.

On April 29 2013, we entered into a new \$625 million Ascot Corporate Name Limited (ACNL) letter of credit facility, which replaced the prior \$725 million ACNL letter of credit facility. Under the new facility, AIG Parent replaced AIG Property Casualty Inc. as a direct obligor. ACNL, as a member of the Lloyd's of London insurance syndicate (Lloyd's), is required to hold capital at Lloyd's, known as Funds at Lloyds (FAL). Under the new facility, which supports the 2013, 2014 and 2015 years of account, the entire FAL requirement of \$564 million, as of April 29, 2013, was satisfied with a letter of credit issued under the facility.

AIG Life and Retirement

We expect that AIG Life and Retirement subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. AIG Life and Retirement subsidiaries' liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade, fixed maturity securities. These securities are eligible to be pledged to a FHLB in the event liquidity levels are insufficient to meet obligations.

In the first six months of 2013, AIG Life and Retirement provided \$1.9 billion of liquidity to AIG Parent, which was funded by the payment of dividends from AIG Life and Retirement's insurance subsidiaries.

The need to fund product surrenders, withdrawals and maturities creates a significant potential liquidity requirement for AIG Life and Retirement's insurance subsidiaries. We believe that because of the size and liquidity of our investment portfolios, AIG Life and Retirement does not face a significant liquidity risk due to normal deviations from projected claim or surrender experience. Furthermore, AIG Life and Retirement's products contain certain features that mitigate surrender risk, including surrender charges. As part of its risk management

framework, AIG Life and Retirement continues to evaluate and, where appropriate, pursue strategies and programs to improve its liquidity

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ITEM 2 / LIQUIDITY AND CAPITAL RESOURCES

position and facilitate AIG Life and Retirement's ability to maintain a fully invested asset portfolio. AIG Life and Retirement also has developed a robust contingent liquidity plan to address any unforeseen liquidity needs.

AIG Life and Retirement executes programs, which began in 2012, that lend securities from its investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, AIG Life and Retirement insurance subsidiaries lend securities to financial institutions and receive collateral equal to 102 percent of the fair value of the loaned securities. Reinvestment of cash collateral received is restricted to liquid investments. Additionally, the aggregate amount of securities that an AIG Life and Retirement insurance company may lend under its program at any time is limited to five percent of its general account admitted assets. AIG Life and Retirement's liability to the borrower for collateral received was \$4.4 billion as of June 30, 2013. In addition, certain AIG Life and Retirement insurance subsidiaries are members of the FHLBs in their respective districts. As of June 30, 2013, AIG Life and Retirement had outstanding borrowings of \$50 million from the FHLBs. Borrowings from the FHLBs are used to supplement liquidity or for other general corporate purposes.

AIG Parent is party to CMAs with certain AIG Life and Retirement insurance subsidiaries. Among other things, the CMAs provide that AIG Parent will maintain the total adjusted capital of each of these AIG Life and Retirement insurance subsidiaries at or above a specified minimum percentage of the subsidiary's projected company action level RBC.

In addition, the CMAs provide that if the total adjusted capital of these AIG Life and Retirement insurance subsidiaries is in excess of that same specified minimum percentage of their respective total company action level RBC, subject to approval by their respective boards and compliance with applicable insurance laws, the subsidiaries would declare and pay ordinary dividends to their respective equity holders up to an amount necessary to reduce projected or actual total adjusted capital to a level equal to or not materially greater than such specified minimum percentage. As of June 30, 2013, the specified minimum percentage was 385 percent, except for the CMA with AGC Life Insurance Company, where the specified minimum percentage is 250 percent.

In the first six months of 2013, approximately \$1.9 billion was distributed under the CMAs and AIG Parent was not required to make any capital contributions under the CMAs.

Other Operations

Mortgage Guaranty

We expect that Mortgage Guaranty subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, monetization of invested assets. Mortgage Guaranty's liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade, fixed maturity securities. These securities could be monetized in the event liquidity levels are insufficient to meet obligations.

On July 1, 2013, AIG Parent entered into a CMA with a Mortgage Guaranty insurance subsidiary. Among other things, the CMA provides that AIG Parent will maintain capital and surplus of this Mortgage Guaranty insurance subsidiary at or above a specified minimum required capital based on a specified risk-to-capital ratio. In addition, the CMA provides that if capital and surplus of this Mortgage Guaranty insurance subsidiary is in excess of that same specified minimum required capital, subject to board approval and compliance with applicable insurance laws, this Mortgage Guaranty insurance subsidiary would declare and pay ordinary dividends to its equity holders up to an amount necessary to reduce projected or actual capital and surplus to a level equal to or not materially greater than such specified minimum required capital.

As structured, the CMA contemplates that the specified minimum required capital would be reviewed and agreed upon at least annually. The initial specified minimum required capital is based on a risk-to-capital ratio of 21 to 1.

Global Capital Markets

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GCM acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services for AIG entities. Commencing June 10, 2013, GCM is required to clear certain derivatives transactions through central regulated clearing organizations pursuant to Dodd-Frank. To the extent a derivatives transaction is subject to a clearing obligation, GCM is required to post collateral in amounts determined by the relevant clearing

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organization and GCM's clearing agreements with its futures commission merchants. To the extent a derivatives transaction is not subject to a clearing obligation, these derivative trades are governed by bilateral master agreements, the form of which is published by the International Swaps and Derivatives Association, Inc. (ISDA). These agreements, primarily between GCM and third party financial institutions, require collateral postings. Many of GCM's transactions with AIG and its subsidiaries also include collateral posting requirements the purpose of which are to provide collateral to GCM, which in turn is used to satisfy posting requirements with third parties, including the margin requirements of clearing organizations and futures commission merchants. Most of GCM's CDS are subject to collateral posting provisions. The collateral posting provisions contained in the ISDA agreements and related transaction documents with respect to CDSs differ among counterparties and asset classes. The amount of future collateral posting requirements for super senior CDSs is a function of our credit ratings, the rating of the relevant reference obligations and the market value of the relevant reference obligations, with the latter being the most significant factor. We estimate the amount of potential future collateral postings associated with the super senior CDS using various methodologies. The contingent liquidity requirements associated with such potential future collateral postings are incorporated into our liquidity planning assumptions.

As of June 30, 2013 and December 31, 2012, respectively, GCM had total assets of \$8.6 billion and \$8.0 billion and total liabilities of \$3.8 billion and \$4.9 billion. GCM's assets consist primarily of cash, short-term investments, other receivables, net of allowance, and unrealized gains on swaps, options and forwards. GCM's liabilities consist primarily of trade payables and unrealized losses on swaps, options and forwards. Collateral posted by GCM to third parties was \$3.3 billion and \$4.2 billion at June 30, 2013 and December 31, 2012, respectively. GCM obtained collateral from third parties totaling \$543 million and \$846 million at June 30, 2013 and December 31, 2012, respectively. The collateral amounts reflect counterparty netting adjustments available under master netting agreements and are inclusive of collateral that exceeded the fair value of derivatives as of the reporting date.

Direct Investment Book

The DIB is managed so that it maintains the liquidity that we believe is necessary to meet all of the DIB liabilities as they come due, even under stress scenarios, without having to liquidate DIB assets or rely on additional liquidity from AIG Parent. If the DIB's risk target is breached, we expect to take appropriate actions to increase the DIB's liquidity sources or reduce liquidity requirements to maintain the risk target, although no assurance can be given that this can be achieved under then-prevailing market conditions. Any additional liquidity shortfalls would need to be funded by AIG Parent.

The DIB's assets consist primarily of cash, short-term investments, fixed maturity securities issued by U.S. government and government sponsored entities, mortgage and asset backed securities and, to a lesser extent, bank loans and mortgage loans. The DIB's liabilities consist primarily of notes and other borrowings supported by assets as well as other short-term financing obligations. As of June 30, 2013 and December 31, 2012, respectively, the DIB had total assets of \$25.7 billion and \$28.5 billion and total liabilities of \$21.8 billion and \$23.8 billion.

The overall hedging activity for the assets and liabilities of the DIB is executed by GCM. The value of hedges related to the non-derivative assets and liabilities of AIGFP in the DIB is included within the assets and liabilities and operating results of GCM and are not included within the DIB operating results, assets or liabilities.

Collateral posted by operations included in the DIB to third parties was \$4.3 billion at both June 30, 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.

Credit Facilities

We maintain a committed revolving four-year syndicated credit facility (the Four-Year Facility) as a potential source of liquidity for general corporate purposes. The Four-Year Facility also provides for the issuance of letters of credit. We currently expect to replace or extend the Four-Year Facility on or prior to its expiration in October 2016, although no assurance can be given that the Four-Year Facility will be replaced on favorable terms or at all.

The Four-Year Facility provides for \$4.0 billion of unsecured revolving loans, which includes a \$2.0 billion letter of credit sublimit. As of June 30, 2013, a total of approximately \$3.1 billion remains available under the Four-Year Facility, of which approximately \$1.1 billion remains available for letters of credit. Our ability to borrow under the Four-Year Facility is not contingent on our credit ratings. However, our ability to borrow under the Four-Year Facility

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is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Four-Year Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Four-Year Facility would restrict our access to the Four-Year Facility and could have a material adverse effect on our financial condition, results of operations and liquidity. We expect to borrow under the Four-Year Facility from time to time, and may use the proceeds for general corporate purposes.

Contingent Liquidity Facilities

AIG Parent has access to a contingent liquidity facility of up to \$500 million as a potential source of liquidity for general corporate purposes. Under this facility, we have the unconditional right, prior to December 15, 2015, to issue up to \$500 million in senior debt to the counterparty, based on a put option agreement between AIG Parent and the counterparty.

Our ability to borrow under this facility is not contingent on our credit ratings.

Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

June 30, 2013 (in millions)	Total Payments	Remainder of 2013	Payments due by Period			
			2014- 2015	2016- 2017	2018	Thereafter
Insurance operations						
Loss reserves	\$ 87,291	\$ 22,559	\$ 24,981	\$ 12,897	\$ 4,192	\$ 22,662
Insurance and investment contract liabilities	230,869	8,388	25,655	24,930	11,622	160,274
Borrowings	1,621	6	46	8	3	1,558
Interest payments on borrowings	2,856	57	225	225	113	2,236
Other long-term obligations	26	4	12	7	3	
Total	\$ 322,663	\$ 31,014	\$ 50,919	\$ 38,067	\$ 15,933	\$ 186,730
Other						
Borrowings ^(a)	\$ 62,426	\$ 3,453	\$ 11,638	\$ 15,570	\$ 9,945	\$ 21,820
Interest payments on borrowings	38,284	1,678	6,460	5,109	1,779	23,258
Aircraft purchase commitments	22,328	895	5,117	7,432	4,381	4,503
Other long-term obligations	199	19	89	3		88
Total	\$ 123,237	\$ 6,045	\$ 23,304	\$ 28,114	\$ 16,105	\$ 49,669
Consolidated						
Loss reserves	\$ 87,291	\$ 22,559	\$ 24,981	\$ 12,897	\$ 4,192	\$ 22,662
Insurance and investment contract liabilities	230,869	8,388	25,655	24,930	11,622	160,274
Borrowings ^(a)	64,047	3,459	11,684	15,578	9,948	23,378
Interest payments on borrowings	41,140	1,735	6,685	5,334	1,892	25,494
Aircraft purchase commitments	22,328	895	5,117	7,432	4,381	4,503

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Other long-term obligations ^(b)	225	23	101	10	3	88
Total ^(c)	\$ 445,900	\$ 37,059	\$ 74,223	\$ 66,181	\$ 32,038	\$ 236,399

- (a) Includes \$23.3 billion of borrowings related to ILFC which is reported as discontinued operations.
- (b) Primarily includes contracts to purchase future services and other capital expenditures.
- (c) Does not reflect unrecognized tax benefits of \$4.9 billion (\$4.6 billion excluding ILFC), the timing of which is uncertain.

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Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to AIG Life and Retirement businesses. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event out of our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Condensed Consolidated Balance Sheets.

We believe that AIG Life and Retirement subsidiaries have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, AIG Life and Retirement businesses maintain significant levels of investment-grade fixed maturity securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

Loss reserves relate to the AIG Property Casualty and the Mortgage Guaranty businesses, and represent future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that AIG Property Casualty and Mortgage Guaranty subsidiaries maintain adequate financial resources to meet the actual required payments under these obligations.

Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG through maturing investments and dispositions of invested assets, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements.

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The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

June 30, 2013 <i>(in millions)</i>	Amount of Commitment Expiring					
	Total Amounts Committed	Remainder of 2013	2014- 2015	2016- 2017	2018	Thereafter
Insurance operations						
Guarantees:						
Standby letters of credit	\$ 1,063	\$ 274	\$ 148	\$ 564	\$ 77	\$
Guarantees of indebtedness	185					185
All other guarantees ^(a)	15		7	1		7
Commitments:						
Investment commitments ^(b)	1,881	1,514	268	99		
Commitments to extend credit	523	427	96			
Letters of credit	10		10			
Other commercial commitments ^(c)	652					652
Total^(e)	\$ 4,329	\$ 2,215	\$ 529	\$ 664	\$ 77	\$ 844
Other						
Guarantees:						
Liquidity facilities ^(d)	\$ 101	\$	\$	\$	\$	\$ 101
Standby letters of credit	306	298	6	2		
All other guarantees ^(a)	384		186	71	31	96
Commitments:						
Investment commitments ^(b)	459	322	39	26		72
Commitments to extend credit	103	100	3			
Letters of credit	20	20				
Other commercial commitments ^(c)	32	30	2			
Total^{(e)(f)}	\$ 1,405	\$ 770	\$ 236	\$ 99	\$ 31	\$ 269
Consolidated						
Guarantees:						
Liquidity facilities ^(d)	\$ 101	\$	\$	\$	\$	\$ 101
Standby letters of credit	1,369	572	154	566	77	
Guarantees of indebtedness	185					185
All other guarantees ^(a)	399		193	72	31	103
Commitments:						
Investment commitments ^(b)	2,340	1,836	307	125		72
Commitments to extend credit	626	527	99			
Letters of credit	30	20	10			
Other commercial commitments ^(c)	684	30	2			652
Total^{(e)(f)}	\$ 5,734	\$ 2,985	\$ 765	\$ 763	\$ 108	\$ 1,113

(a) Includes residual value guarantees associated with aircraft and AIG Life and Retirement construction guarantees connected to affordable housing investments. Excludes potential amounts for indemnification obligations included in asset sales agreements. See Note 10 to the Condensed Consolidated Financial Statements for further information on indemnification obligations.

(b) Includes commitments to invest in private equity funds, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(c) Excludes commitments with respect to pension plans. The remaining pension contribution for 2013 is expected to be approximately \$36 million for U.S. and non-U.S. plans.

(d) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(e) Does not include guarantees, capital maintenance agreements or other support arrangements among AIG consolidated entities.

(f) Includes \$337 million attributable to ILFC, which is reported as discontinued operations.

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Arrangements with Variable Interest Entities

While AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business, our involvement with VIEs is primarily as a passive investor in fixed maturity securities (rated and unrated) and equity interests issued by VIEs. We consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 8 to the Condensed Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by the contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 10 to the Condensed Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments under these arrangements.

Debt

The following table provides the rollforward of AIG's total debt outstanding:

Six Months Ended June 30, 2013 <i>(in millions)</i>	Balance at December 31, 2012	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Changes	Balance at June 30, 2013
Debt issued or guaranteed by AIG:						
AIG general borrowings:						
Notes and bonds payable	\$ 14,084	\$	\$ (1,062)	\$ (145)	\$ 15	\$ 12,892
Subordinated debt	250					250
Junior subordinated debt	9,416		(2,831)	(110)	3	6,478
Loans and mortgages payable	79		(2)		1	78
AIGLH notes and bonds payable	298				1	299
Liabilities connected to trust preferred stock ^(a)	1,339		(245)			1,094
Total AIG general borrowings	25,466		(4,140)	(255)	20	21,091
AIG borrowings supported by assets: ^(b)						
MIP notes payable	9,296		(181)	(209)	(27)	8,879
Series AIGFP matched notes and bonds payable	3,544		(33)		(16)	3,495

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GIAs, at fair value	6,501	249	(471)	(463) ^(c)	5,816	
Notes and bonds payable, at fair value	1,554	18	(513)	138 ^(c)	1,197	
Total AIG borrowings supported by assets	20,895	267	(1,198)	(209)	(368)	19,387
Total debt issued or guaranteed by AIG	46,361	267	(5,338)	(464)	(348)	40,478
Debt not guaranteed by AIG:						
Other subsidiaries notes, bonds, loans and mortgages payable	325	99	(134)	(21)	27	296
Debt of consolidated investments ^(d)	1,814	120	(86)	(44)	36	1,840
Total debt not guaranteed by AIG	2,139	219	(220)	(65)	63	2,136
Total debt ^(e)	\$ 48,500	\$ 486	\$ (5,558)	\$ (529)	\$ (285)	\$ 42,614

(a) On July 11, 2013, AIGLH junior subordinated debentures with the same terms as the trust preferred securities were distributed to holders of the trust preferred securities, and the trust preferred securities were cancelled.

(b) AIG Parent guarantees all DIB debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent.

(c) Primarily represents adjustments to the fair value of debt.

(d) At June 30, 2013, includes debt of consolidated investments primarily held through AIG Global Real Estate Investment Corp., AIG Credit Corp. and AIG Life and Retirement of \$1.5 billion, \$149 million and \$194 million, respectively.

(e) Excludes \$23.3 billion related to ILFC as it is classified as a held for sale business at June 30, 2013.

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The decrease in total debt outstanding as of June 30, 2013, compared to December 31, 2012, was due to maturities and repayments of debt, including cash tender offers, redemptions and repurchases of certain securities discussed above.

Debt Maturities

The following table summarizes maturing debt at June 30, 2013 of AIG (excluding \$1.8 billion of borrowings of consolidated investments) for the next four quarters:

<i>(in millions)</i>	Third Quarter 2013	Fourth Quarter 2013	First Quarter 2014	Second Quarter 2014	Total
AIG general borrowings	\$ 77	\$ 469	\$ 500	\$ 514	\$ 1,046
AIG borrowings supported by assets	875	98	379	514	1,866
Other subsidiaries notes, bonds, loans and mortgages payable	5				5
Total	\$ 957	\$ 567	\$ 879	\$ 514	\$ 2,917

AIG borrowings supported by assets consisted of debt under the DIB. At June 30, 2013, all of the debt maturities in the DIB through June 30, 2014 are supported by short-term investments and maturing investments.

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The following table presents maturities of long-term debt (including unamortized original issue discount, hedge accounting valuation adjustments and fair value adjustments, when applicable), excluding \$1.8 billion in borrowings of consolidated investments:

June 30, 2013 (in millions)	Remainder		Year Ending					
	Total	of 2013	2014	2015	2016	2017	2018	Thereafter
General borrowings:								
Notes and bonds payable	\$ 12,892	\$ 469	\$ 500	\$ 999	\$ 1,725	\$ 1,383	\$ 2,494	\$ 5,322
Subordinated debt	250			250				
Junior subordinated debt	6,478							6,478
Loans and mortgages payable	78	77		1				
AIGLH notes and bonds payable	299							299
Liabilities connected to trust preferred stock ^(a)	1,094							1,094
AIG general borrowings	\$ 21,091	\$ 546	\$ 500	\$ 1,250	\$ 1,725	\$ 1,383	\$ 2,494	\$ 13,193
Borrowings supported by assets:								
MIP notes payable	8,879	694	1,584	999	1,260	3,898	444	
Series AIGFP matched notes and bonds payable	3,495						3,241	254
GIAs, at fair value	5,816	179	593	594	310	249	647	3,244
Notes and bonds payable, at fair value	1,197	100	29	238	215	123	158	334
AIG borrowings supported by assets	19,387	973	2,206	1,831	1,785	4,270	4,490	3,832

Other subsidiaries notes, bonds, loans and mortgages payable	296	5	1	45	2	6	3	234
Total	\$ 40,774	\$ 1,524	\$ 2,707	\$ 3,126	\$ 3,512	\$ 5,659	\$ 6,987	\$ 17,259

(a) On July 11, 2013, AIGLH junior subordinated debentures with the same terms as the trust preferred securities were distributed to holders of the trust preferred securities and the trust preferred securities were cancelled.

Credit Ratings

Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing to that company. The following table presents the credit ratings of AIG and certain of its subsidiaries as of July 31, 2013. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's(a)	S&P(b)	Fitch(c)
AIG	P-2 (2nd of 3) <i>Stable Outlook</i>	A-2 (2nd of 8)	Baa 1 (4th of 9) <i>Stable Outlook</i>	A- (3rd of 8) <i>Negative Outlook</i>	BBB (4th of 9) <i>Stable Outlook</i>
AIG Financial Products Corp. ^(d)	P-2 <i>Stable Outlook</i>	A-2	Baa 1 <i>Stable Outlook</i>	A- <i>Negative Outlook</i>	
AIG Funding, Inc. ^(d)	P-2 <i>Stable Outlook</i>	A-2			

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.

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These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers". Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or require accelerated repayment, (ii) the termination of business contracts or (iii) requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP would be required to post additional collateral under some derivative transactions, or to permit termination of the transactions. Such transactions could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP would be required to post additional collateral, and certain of AIGFP's counterparties would be permitted to terminate their contracts early.

The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or 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 the time of the downgrade.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies or our credit ratings, see Note 9 to the Condensed Consolidated Financial Statements herein and Part I, Item 1A. Risk Factors – Liquidity, Capital and Credit in the 2012 Annual Report.

Dividends and Repurchases of AIG Common Stock

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

On August 1, 2013, our Board of Directors authorized the repurchase of shares of AIG Common Stock, with an aggregate purchase price of up to \$1.0 billion, from time to time in the open market, private purchases, through forward, derivative, accelerated repurchase or automatic repurchase transactions or otherwise. The timing of such repurchases will depend on market conditions, our financial condition, results of operations, liquidity and other factors.

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. See Note 20 to the Consolidated Financial Statements in the 2012 Annual Report for additional discussion of restrictions on payments of dividends by AIG's subsidiaries.

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ITEM 2 / INVESTMENTS

OVERVIEW

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

Market Conditions

Our investments and investment strategies were affected by the following conditions in the second quarter of 2013:

The Federal Reserve's potential tapering of its quantitative easing bond purchase program led to a selloff in the bond market in June. Slowing growth in China and continued challenges in Europe added to the uncertainty in the bond market.

Although June ended seven months of positive performance in the domestic equity markets, the second quarter performance was muted, at approximately 2 percent. U.S. equity markets reached record high levels during the quarter before retreating in the last half of June.

Bond yields increased sharply during the second quarter of 2013, with the ten-year U.S. Treasury rates increasing 64 basis points to end the quarter at 2.49 percent. In addition, spreads on investment grade and high yield securities widened during the quarter.

The performance of the U.S. dollar relative to other currencies was mixed during the quarter as it strengthened 5 percent against the Yen, weakened 1 percent against the Euro, and was flat against the British Pound.

Investment Strategies

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

In the case of AIG Life and Retirement, as well as in the DIB, our fundamental investment strategy is to match the duration characteristics of the liabilities with assets of comparable duration, to the extent practicable.

Fixed maturity securities held by the domestic insurance companies included in AIG Property Casualty historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. To meet the current risk-return and tax objectives of AIG Property Casualty, cash flows from the investment portfolio and insurance operations are generally being reinvested by the domestic property and casualty companies in taxable instruments which meet the companies' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives.

Outside of the U.S., fixed maturity securities held by AIG Property Casualty companies consist primarily of intermediate duration high-grade securities generally denominated in the currencies of the countries in which we operate.

AIG Parent's liquidity resources are held in the form of cash, short-term investments and publicly traded, investment grade, fixed maturity securities. AIG Parent actively manages its assets and liabilities in terms of products, counterparties and tenor. During the first half of 2013, upon an assessment of its immediate and longer-term funding needs, AIG Parent purchased publicly traded, intermediate term, investment grade fixed maturity securities that can be readily monetized through sales or repurchase agreements. These securities allow us to diversify sources of liquidity while reducing the cost of maintaining sufficient liquidity.

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Investment Highlights

The following is an overview of investment activities during the second quarter of 2013:

An increase in rates and widening of investment grade and high yields spreads resulted in net unrealized losses in the investment portfolio. Net unrealized gains in our available-for-sale portfolio declined to approximately \$14 billion as of June 30, 2013 from approximately \$25 billion as of December 31, 2012 due to increases in interest rates and the realization of over \$1.5 billion in gains.

We continued to make investments in structured securities and other fixed maturity securities with attractive and appropriate risk versus return characteristics to improve yields and increase net investment income.

Net investment income benefited from higher returns on alternative investments primarily due to the performance of equity markets.

Blended investment yields on new AIG Life and Retirement and AIG Property Casualty investments were lower than blended rates on investments that were sold, matured or called.

Other-than-temporary-impairments remained at low levels, with a small portion attributable to structured securities.

Credit Ratings

At June 30, 2013, approximately 89 percent of fixed maturity securities were held by our domestic entities. Approximately 17 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 15 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available for some foreign issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At June 30, 2013, approximately 16 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 3 percent were rated below investment grade or not rated. Approximately 49 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

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

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

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

	Available for Sale		Trading		Total	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Rating:						
Other fixed maturity securities						
AAA	\$ 18,948	\$ 21,433	\$ 3,959	\$ 6,047	\$ 22,907	\$ 27,480
AA	42,275	44,224	2,166	636	44,441	44,860
A	59,574	62,824	451	588	60,025	63,412
BBB	73,724	78,554	426	468	74,150	79,022
Below investment grade	9,269	9,775	340	265	9,609	10,040
Non-rated	54	290		112	54	402
Total	\$ 203,844	\$ 217,100	\$ 7,342	\$ 8,116	\$ 211,186	\$ 225,216
Mortgage-backed, asset-backed and collateralized						
AAA	\$ 22,296	\$ 21,151	\$ 2,878	\$ 2,843	\$ 25,174	\$ 23,994
AA	3,524	3,162	2,767	2,889	6,291	6,051
A	6,321	5,533	1,132	928	7,453	6,461
BBB	3,613	3,497	688	807	4,301	4,304
Below investment grade	21,616	19,390	8,923	8,957	30,539	28,347
Non-rated	15	126	59	44	74	170
Total	\$ 57,385	\$ 52,859	\$ 16,447	\$ 16,468	\$ 73,832	\$ 69,327
Total						
AAA	\$ 41,244	\$ 42,584	\$ 6,837	\$ 8,890	\$ 48,081	\$ 51,474
AA	45,799	47,386	4,933	3,525	50,732	50,911
A	65,895	68,357	1,583	1,516	67,478	69,873
BBB	77,337	82,051	1,114	1,275	78,451	83,326
Below investment grade	30,885	29,165	9,263	9,222	40,148	38,387
Non-rated	69	416	59	156	128	572
Total	\$ 261,229	\$ 269,959	\$ 23,789	\$ 24,584	\$ 285,018	\$ 294,543

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The following tables summarize the composition of AIG's investments by reportable segment:

<i>(in millions)</i>	Reportable Segment			Consolidation		Total
	AIG Property Casualty	AIG Life and Retirement	Other Operations	and Eliminations		
June 30, 2013						
Fixed maturity securities:						
Bonds available for sale, at fair value	\$ 100,039	\$ 154,753	\$ 10,426	\$ (3,989)	\$	261,229
Bond trading securities, at fair value	2,092	2,522	19,369	(194)		23,789
Equity securities:						
Common and preferred stock available for sale, at fair value	3,035	104	14			3,153
Common and preferred stock trading, at fair value	151	508	99			758
Mortgage and other loans receivable, net of allowance	1,433	18,984	1,394	(1,954)		19,857
Other invested assets	13,100	12,755	3,397	(46)		29,206
Short-term investments	5,016	6,798	9,238	(837)		20,215
Total investments*	124,866	196,424	43,937	(7,020)		358,207
Cash	1,063	401	298			1,762
Total invested assets	\$ 125,929	\$ 196,825	\$ 44,235	\$ (7,020)	\$	359,969
December 31, 2012						
Fixed maturity securities:						
Bonds available for sale, at fair value	\$ 102,563	\$ 163,550	\$ 6,580	\$ (2,734)	\$	269,959
Bond trading securities, at fair value	1,597	1,856	21,362	(231)		24,584
Equity securities:						
Common and preferred stock available for sale, at fair value	3,093	111	8			3,212
Common and preferred stock trading, at fair value		562	100			662
Mortgage and other loans receivable, net of allowance	2,839	18,755	2,015	(4,127)		19,482
Other invested assets	12,720	12,737	3,280	380		29,117
Short-term investments	7,935	7,392	14,432	(951)		28,808
Total investments*	130,747	204,963	47,777	(7,663)		375,824
Cash	649	297	205			1,151
Total invested assets	\$ 131,396	\$ 205,260	\$ 47,982	\$ (7,663)	\$	376,975

* At June 30, 2013 approximately 89 percent and 11 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 88 percent and 12 percent, respectively, at December 31, 2012.

AIG Property Casualty

In our property casualty business, the duration of liabilities for long-tail casualty lines is greater than that for other lines. As differentiated from the life insurance and retirement services companies, the focus is not on asset-liability matching, but on preservation of capital and growth of surplus.

Fixed maturity securities of AIG Property Casualty domestic operations, with an average duration of 4.1 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns as well as taxable municipal bonds, government and agency bonds, and corporate bonds. The majority of these high quality investments are rated A or higher based on composite ratings.

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Fixed maturity securities held in AIG Property Casualty foreign operations are of high quality and short to intermediate duration, averaging 4.2 years.

While invested assets backing reserves are primarily invested in conventional fixed maturity securities in AIG Property Casualty domestic operations, a modest portion of surplus is allocated to alternative investments, including private equity and hedge funds. These investments have provided a combination of added diversification and attractive long-term returns over time.

AIG Life and Retirement

With respect to AIG Life and Retirement, we use asset-liability management as a tool to determine the composition of the invested assets. Our objective is to maintain a matched asset-liability structure, although we may occasionally determine that it is economically advantageous to be temporarily in an unmatched position. To the extent that we have maintained a matched asset-liability structure, the economic effect of interest rate fluctuations is partially mitigated.

Our investment strategy for AIG Life and Retirement is to produce cash flows greater than maturing insurance liabilities. There exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

AIG Life and Retirement frequently reviews its interest rate assumptions and actively manages the crediting rates used for its new and in force business. Business strategies continue to evolve to maintain profitability of the overall business in a low interest rate environment.

The investment of insurance cash flows and reinvestment of the proceeds of matured securities and coupons requires active management of investment yields while maintaining satisfactory investment quality and liquidity.

A number of guaranteed benefits, such as living benefits and guaranteed minimum death benefits, are offered on certain variable and indexed annuity products. The fair value of these benefits is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. We manage our exposure resulting from these long-term guarantees through reinsurance or capital market hedging instruments. We actively review underlying assumptions of policyholder behavior and persistency related to these guarantees. We have taken positions in certain derivative financial instruments in order to hedge the impact of changes in equity markets and interest rates on these benefit guarantees. We execute listed futures and options contracts on equity indexes to hedge certain guarantees of variable and indexed annuity products. We also enter into various types of futures and options contracts, primarily to hedge changes in value of certain guarantees of variable and indexed annuities due to fluctuations in interest rates. We use several instruments to hedge interest rate exposure, including listed futures on government securities, listed options on government securities and the purchase of government securities.

With respect to over-the-counter derivatives, we deal with highly rated counterparties and do not expect the counterparties to fail to meet their obligations under the contracts. We have controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. We generally use ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed maturity securities of AIG Life and Retirement, with an average duration of 6.2 years, are comprised of taxable corporate bonds, as well as municipal and government bonds, commercial mortgage loans, and agency and non-agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on our composite ratings.

NAIC Designations

The SVO of the NAIC evaluates the investments of U.S. insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called 'NAIC Designations.' In general, NAIC Designations of '1' highest quality, or '2' high quality, include fixed maturity securities considered investment grade, while NAIC Designations of '3' through '6' generally include fixed maturity securities referred to as below investment grade. The NAIC

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Designations for certain mortgaged-backed, asset-backed and collateralized securities are based on security level expected losses as modeled by an independent third party engaged by the NAIC.

The following table presents the NAIC Designations of the fixed maturity securities in AIG Life and Retirement's fixed maturity security portfolio based on fair value:

At June 30, 2013 (in millions)	Rating Agency Designation	Other Fixed Maturity Securities	Mortgage-Backed, Asset-Backed and Collateralized	Total
Investment grade:				
1	Aaa/Aa/A	\$ 47,056	\$ 36,873	\$ 83,929
2	Baa	61,538	1,877	63,415
Subtotal		108,594	38,750	147,344
Below investment grade:				
3	Ba	4,054	817	4,871
4	B	2,018	444	2,462
5	Caa and Lower	463	427	890
6	In or near default	128	1,211	1,339
Subtotal		6,663	2,899	9,562
Total*		\$ 115,257	\$ 41,649	\$ 156,906

* Excludes \$369 million of fixed maturity securities for which no NAIC rating is available because they are not held in legal entities within AIG Life and Retirement that require a statutory filing.

Available-for-Sale Investments

The following table presents the fair value of AIG's available-for-sale securities:

(in millions)	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Bonds available for sale:		
U.S. government and government sponsored entities	\$ 3,530	\$ 3,483
Obligations of states, municipalities and political subdivisions	32,728	35,705
Non-U.S. governments	23,629	26,800
Corporate debt	143,957	151,112
Mortgage-backed, asset-backed and collateralized:		
RMBS	36,982	34,392
CMBS	10,681	9,915
CDO/ABS	9,722	8,552

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Total mortgage-backed, asset-backed and collateralized	57,385	52,859
Total bonds available for sale*	261,229	269,959
Equity securities available for sale:		
Common stock	2,893	3,029
Preferred stock	81	78
Mutual funds	179	105
Total equity securities available for sale	3,153	3,212
Total	\$ 264,382	\$ 273,171

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

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Investments in Municipal Bonds

At June 30, 2013, the U.S. municipal bond portfolio of AIG Property Casualty was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with over 98 percent of the portfolio rated A or higher.

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

June 30, 2013 <i>(in millions)</i>	State General Obligation	Local General Obligation	Revenue	Total Fair Value
State:				
California	\$ 664	\$ 1,236	\$ 2,847	\$ 4,747
Texas	221	2,199	1,958	4,378
New York	22	758	3,428	4,208
Washington	663	216	735	1,614
Massachusetts	834		836	1,670
Illinois	153	673	739	1,565
Florida	329	9	948	1,286
Virginia	88	115	858	1,061
Georgia	475	154	393	1,022
Arizona		155	790	945
Ohio	172	115	503	790
Maryland	427	92	161	680
Pennsylvania	411	65	191	667
All other states	1,419	1,124	5,552	8,095
Total^{(a)(b)}	\$ 5,878	\$ 6,911	\$ 19,939	\$ 32,728

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

(b) Includes \$8.4 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

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

Industry Category <i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
--	--	--

Financial institutions:

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Money Center /Global Bank Groups	\$	11,853	\$	12,300
Regional banks other		778		885
Life insurance		3,843		4,180
Securities firms and other finance companies		569		636
Insurance non-life		5,020		5,429
Regional banks North America		6,789		7,729
Other financial institutions		7,636		7,633
Utilities		23,691		24,993
Communications		11,211		11,744
Consumer noncyclical		16,905		17,307
Capital goods		9,007		9,697
Energy		10,929		11,275
Consumer cyclical		10,750		10,781
Basic		9,172		9,753
Other		15,804		16,770
Total*	\$	143,957	\$	151,112

* At both June 30, 2013 and December 31, 2012, approximately 94 percent of these investments were rated investment grade.

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Investments in RMBS

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

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Total RMBS		
2013	\$ 1,641	\$ 1,630
2012	2,571	7,545
2011	7,025	2,951
2010	2,231	378
2009	289	21,888
2008 and prior*	23,225	
Total RMBS	\$ 36,982	\$ 34,392
Agency		
2013	\$ 1,626	\$ 1,395
2012	2,362	5,498
2011	4,966	2,812
2010	2,145	321
2009	223	3,548
2008 and prior	2,817	
Total Agency	\$ 14,139	\$ 13,574
Alt-A		
2010	\$ 45	\$ 53
2008 and prior	9,671	7,871
Total Alt-A	\$ 9,716	\$ 7,924
Subprime		
2008 and prior	\$ 2,398	\$ 2,151
Total Subprime	\$ 2,398	\$ 2,151
Prime non-agency		
2013	\$ 16	\$ 235
2012	209	2,047
2011	2,059	86
2010	42	58
2009	66	7,910
2008 and prior	7,872	
Total Prime non-agency	\$ 10,264	\$ 10,336

Total Other housing related \$ 465 \$ 407

* Includes approximately \$10.8 billion and \$8.8 billion at June 30, 2013 and December 31, 2012, respectively of Purchased Credit Impaired securities that were purchased at a significant discount to amortized cost commencing in the second quarter of 2011.

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

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Rating:		
Total RMBS		
AAA	\$ 16,656	\$ 16,048
AA	526	795
A	663	411
BBB	765	744
Below investment grade ^(a)	18,372	16,283
Non-rated		111
Total RMBS^(b)	\$ 36,982	\$ 34,392
Agency RMBS		
AAA	\$ 14,069	\$ 13,464
AA	70	110
Total Agency	\$ 14,139	\$ 13,574
Alt-A RMBS		
AAA	\$ 35	\$ 57
AA	81	195
A	149	83
BBB	280	314
Below investment grade ^(a)	9,171	7,275
Total Alt-A	\$ 9,716	\$ 7,924
Subprime RMBS		
AAA	\$ 34	\$ 38
AA	85	170
A	223	129
BBB	234	185
Below investment grade ^(a)	1,822	1,629
Total Subprime	\$ 2,398	\$ 2,151
Prime non-agency		
AAA	\$ 2,507	\$ 2,487
AA	282	317
A	288	196
BBB	210	208
Below investment grade ^(a)	6,977	7,017
Non-rated		111
Total prime non-agency	\$ 10,264	\$ 10,336

Total Other housing related \$ 465 \$ 407

(a) Commencing in the second quarter of 2011, we began purchasing certain RMBS that had experienced deterioration in credit quality since their origination. See Note 6 to the Condensed Consolidated Financial Statements, Investments – Purchased Credit Impaired (PCI) Securities, for additional discussion.

(b) The weighted average expected life was 5 years and 6 years at June 30, 2013 and December 31, 2012, respectively.

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

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Investments in CMBS

The following table presents our CMBS available for sale investments:

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
CMBS (traditional)	\$ 8,606	\$ 7,880
Agency	1,576	1,486
Other	499	549
Total	\$ 10,681	\$ 9,915

The following table presents our CMBS available for sale investments by year of vintage:

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Year:		
2013	\$ 1,534	\$ 1,427
2012	1,170	1,347
2011	1,241	807
2010	656	44
2009	11	6,290
2008 and prior	6,069	
Total	\$ 10,681	\$ 9,915

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

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Rating:		
AAA	\$ 4,753	\$ 4,276
AA	1,791	1,591
A	806	808
BBB	1,155	1,228
Below investment grade	2,161	1,997

Non-rated		15		15
Total	\$	10,681	\$	9,915

The following table presents our CMBS available for sale investments by geographic region:

<i>(in millions)</i>		Fair Value at June 30, 2013		Fair Value at December 31, 2012
Geographic region:				
New York	\$	2,043	\$	1,833
California		1,081		923
Texas		613		574
Florida		451		395
New Jersey		366		288
Virginia		337		319
Illinois		318		267
Pennsylvania		220		198
Hawaii		216		217
Massachusetts		206		185
Georgia		203		183
Arizona		186		127
All Other*		4,441		4,406
Total	\$	10,681	\$	9,915

* Includes Non-U.S. locations.

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The following table presents our CMBS available for sale investments by industry:

<i>(in millions)</i>	Fair Value at June 30, 2013	Fair Value at December 31, 2012
Industry:		
Office	\$ 2,812	\$ 2,696
Multi-family*	2,507	2,423
Retail	2,691	2,409
Lodging	1,397	1,215
Industrial	549	552
Other	725	620
Total	\$ 10,681	\$ 9,915

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable during the second quarter of 2013. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

<i>(in millions)</i>	Fair value at June 30, 2013	Fair value at December 31, 2012
Collateral Type:		
Bank loans (CLO)	\$ 3,546	\$ 2,579
Synthetic investment grade		25
Other	703	643
Subprime ABS		10
Total	\$ 4,249	\$ 3,257

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

<i>(in millions)</i>	Fair Value at June 30,	Fair Value at December 31,
----------------------	-----------------------------------	---------------------------------------

	2013	2012
Rating:		
AAA	\$ 234	\$ 145
AA	999	543
A	1,765	1,303
BBB	571	524
Below investment grade	680	742
Total	\$ 4,249	\$ 3,257

Table of Contents**ITEM 2 / INVESTMENTS****Commercial Mortgage Loans**

At June 30, 2013, we had direct commercial mortgage loan exposure of \$14.7 billion. At that date, over 99 percent of the loans were current.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

June 30, 2013 (dollars in millions)	Number of Loans	Class						Total	Percent of Total
		Apartments	Offices	Retails	Industrials	Hotels	Others		
State:									
California	148	\$ 117	\$ 862	\$ 283	\$ 632	\$ 391	\$ 649	2,934	20%
New York	86	649	1,312	174	72	101	146	2,454	17
New Jersey	54	462	337	302	7	17	52	1,177	8
Florida	91	62	172	369	87	20	151	861	6
Texas	57	36	263	158	184	150	29	820	5
Pennsylvania	56	47	98	183	112	16	14	470	3
Connecticut	20	270	144	5	44			463	3
Ohio	50	158	34	95	62	38	3	390	3
Maryland	22	21	142	202	13	4	4	386	3
Arizona	10	40	106	57	35	1	86	325	2
Other states	356	450	1,263	1,078	377	485	433	4,086	28
Foreign	60	1	128	64	64	114	114	307	2
Total*	1,010	\$ 2,313	\$ 4,861	\$ 2,906	\$ 1,689	\$ 1,223	\$ 1,681	14,673	100%

* Excludes portfolio valuation losses.

See Note 7 to the Consolidated Financial Statements in the 2012 Annual Report for further discussion.

Impairments

The following table presents impairments by investment type:

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Fixed maturity securities, available for sale	\$ 22	\$ 105	\$ 58	\$ 554
Equity securities, available for sale	5	45	10	49

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Private equity funds and hedge funds	59	66	92	231
Subtotal	86	216	160	834
Life settlement contracts ^(a)	38	56	87	114
Alternative investments			1	
Real estate ^(a)	14		19	7
Total	\$ 138	\$ 272	\$ 267	\$ 955

(a) Impairments of investments in Life settlement contracts and Real estate are recorded in Other realized losses.

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Other-Than-Temporary Impairments

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

Other-than-temporary impairment charges by reportable segment and impairment type:

<i>(in millions)</i>	Reportable Segment			Other Operations	Total
	AIG Property Casualty	AIG Life and Retirement			
Three Months Ended June 30, 2013					
Impairment Type:					
Severity	\$ 3	\$	\$	\$	3
Change in intent					
Foreign currency declines					
Issuer-specific credit events	5	77			82
Adverse projected cash flows	1				1
Total	\$ 9	\$ 77	\$	\$	86
Three Months Ended June 30, 2012					
Impairment Type:					
Severity	\$ 5	\$ 5	\$	\$	10
Change in intent		2			2
Foreign currency declines	1				1
Issuer-specific credit events	90	107	5		202
Adverse projected cash flows		1			1
Total	\$ 96	\$ 115	\$ 5	\$	216
Six Months Ended June 30, 2013					
Impairment Type:					
Severity	\$ 5	\$	\$	\$	5
Change in intent	2		1		3
Foreign currency declines					
Issuer-specific credit events	20	125			145
Adverse projected cash flows	1	6			7
Total	\$ 28	\$ 131	\$ 1	\$	160
Six Months Ended June 30, 2012					
Impairment Type:					

Six Months Ended June 30, 2012
Impairment Type:

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Severity	\$	9	\$	5	\$	\$	14
Change in intent		2		20			22
Foreign currency declines		6					6
Issuer-specific credit events		281		480		27	788
Adverse projected cash flows		1		3			4
Total	\$	299	\$	508	\$	27	\$ 834

Table of Contents**ITEM 2 / INVESTMENTS****Other-than-temporary impairment charges by investment type and impairment type:**

<i>(in millions)</i>	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended June 30, 2013						
Impairment Type:						
Severity	\$	\$	\$	\$	\$ 3	\$ 3
Change in intent						
Foreign currency declines						
Issuer-specific credit events	5		15	1	61	82
Adverse projected cash flows	1					1
Total	\$ 6	\$	\$ 15	\$ 1	\$ 64	\$ 86
Three Months Ended June 30, 2012						
Impairment Type:						
Severity	\$	\$	\$	\$	\$ 10	\$ 10
Change in intent					2	2
Foreign currency declines				1		1
Issuer-specific credit events	70	2	28	2	100	202
Adverse projected cash flows	1					1
Total	\$ 71	\$ 2	\$ 28	\$ 3	\$ 112	\$ 216
Six Months Ended June 30, 2013						
Impairment Type:						
Severity	\$	\$	\$	\$	\$ 5	\$ 5
Change in intent				1	2	3
Foreign currency declines						
Issuer-specific credit events	9	3	28	10	95	145
Adverse projected cash flows	7					7
Total	\$ 16	\$ 3	\$ 28	\$ 11	\$ 102	\$ 160
Six Months Ended June 30, 2012						
Impairment Type:						
Severity	\$	\$	\$	\$	\$ 14	\$ 14
Change in intent					22	22
Foreign currency declines				6		6
Issuer-specific credit events	400	5	117	21	245	788
Adverse projected cash flows	4					4
Total	\$ 404	\$ 5	\$ 117	\$ 27	\$ 281	\$ 834

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

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<i>(in millions)</i>	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
Three Months Ended June 30, 2013						
Rating:						
AAA	\$ 1	\$	\$	\$	\$	1
AA						
A						
BBB						
Below investment grade	5		15	1		21
Non-rated					64	64
Total	\$ 6	\$	\$ 15	\$ 1	\$ 64	\$ 86
Three Months Ended June 30, 2012						
Rating:						
AAA	\$	\$	\$	1	\$	1
AA	1					1
A					1	1
BBB	1					1
Below investment grade	69	2	28	2		101
Non-rated					111	111
Total	\$ 71	\$ 2	\$ 28	\$ 3	\$ 112	\$ 216
Six Months Ended June 30, 2013						
Rating:						
AAA	\$ 1	\$	\$	\$	\$	1
AA						
A						
BBB						
Below investment grade	15	3	28	10		56
Non-rated				1	102	103
Total	\$ 16	\$ 3	\$ 28	\$ 11	\$ 102	\$ 160
Six Months Ended June 30, 2012						
Rating:						
AAA	\$	\$	\$	1	\$	1
AA	2					2
A	1	1			1	3
BBB	3					3
Below investment grade	398	4	117	20		539
Non-rated				6	280	286
Total	\$ 404	\$ 5	\$ 117	\$ 27	\$ 281	\$ 834

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

We recorded other-than-temporary impairment charges in the three- and six-month periods ended June 30, 2013 and 2012 related to:

issuer-specific credit events;

securities for which we have changed our intent from hold to sell;

declines due to foreign exchange rates;

adverse changes in estimated cash flows on certain structured securities;

securities that experienced severe market valuation declines; and

other impairments, including equity securities, private equity funds, hedge funds, direct private equity investments, aircraft trusts and investments in life settlement contracts.

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There was no significant impact to our consolidated financial condition or results of operations from other-than-temporary impairment charges for any one single credit. Also, no individual other-than-temporary impairment charge exceeded 0.01 percent and 0.10 percent of total equity at June 30, 2013 and 2012, respectively.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining life of the security. The accretion that was recognized for these securities in earnings was \$222 million and \$231 million for the three-month periods ended June 30, 2013 and 2012, respectively, and \$427 million and \$453 million for the six-month periods ended June 30, 2013 and 2012, respectively. For a discussion of AIG's other-than-temporary impairment accounting policy, see Note 7 to the Consolidated Financial Statements in the 2012 Annual Report.

The following table shows the aging of the pre-tax unrealized losses of fixed maturity and equity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

June 30, 2013 Aging(a) (dollars in millions)	Less Than or Equal to 20% of Cost(b)			Greater Than 20% to 50% of Cost(b)			Greater Than 50% of Cost(b)			Total		
	Unrealized Cost(c)	Loss (d)	Items(e)	Unrealized Cost(c)	Loss (d)	Items(e)	Unrealized Cost(c)	Loss (d)	Items(e)	Unrealized Cost(c)	Loss (d)	Items(e)
Investment grade bonds												
0 6 months	\$ 47,874	\$ 2,569	4,185	\$ 304	\$ 69	12	\$	\$		\$ 48,178	\$ 2,638	4,197
7 11 months	3,786	387	420	175	39	28				3,961	426	448
12 months or more	3,241	228	291	326	91	19	12	10	1	3,579	329	311
Total	\$ 54,901	\$ 3,184	4,896	\$ 805	\$ 199	59	\$ 12	\$ 10	1	\$ 55,718	\$ 3,393	4,956
Below investment grade bonds												
0 6 months	\$ 6,091	\$ 252	903	\$ 65	\$ 24	6	\$	\$		\$ 6,156	\$ 276	909
7 11 months	253	25	39	105	29	7				358	54	46
12 months or more	2,294	192	308	472	143	77	53	38	17	2,819	373	402
Total	\$ 8,638	\$ 469	1,250	\$ 642	\$ 196	90	\$ 53	\$ 38	17	\$ 9,333	\$ 703	1,357
Total bonds												
0 6 months	\$ 53,965	\$ 2,821	5,088	\$ 369	\$ 93	18	\$	\$		\$ 54,334	\$ 2,914	5,106
7 11 months	4,039	412	459	280	68	35				4,319	480	494
12 months or more	5,535	420	599	798	234	96	65	48	18	6,398	702	713
Total^(e)	\$ 63,539	\$ 3,653	6,146	\$ 1,447	\$ 395	149	\$ 65	\$ 48	18	\$ 65,051	\$ 4,096	6,313
Equity securities												
0 11 months	\$ 243	\$ 18	87	\$ 43	\$ 15	36	\$	\$		\$ 286	\$ 33	123
12 months or more				9	2	2				9	2	2
Total	\$ 243	\$ 18	87	\$ 52	\$ 17	38	\$	\$		\$ 295	\$ 35	125

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

- (b) Represents the percentage by which fair value is less than cost at June 30, 2013.
- (c) For bonds, represents amortized cost.
- (d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.
- (e) Item count is by CUSIP by subsidiary.

For the six-month periods ended June 30, 2013, net unrealized gains related to fixed maturity and equity securities decreased by \$11.3 billion primarily due to the increase in interest rates for investment grade fixed maturity securities, which more than offset the narrowing of credit spreads for high yield securities.

See also Note 6 to the Condensed Consolidated Financial Statements for further discussion of our investment portfolio.

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ITEM 2 / ENTERPRISE RISK MANAGEMENT

Enterprise Risk Management

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

OVERVIEW

We have an integrated process for managing risks throughout our organization in accordance with our firm-wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of the firm's major risk positions. Within each business unit, senior leaders and executives approve risk-taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of enterprise risk management in all of our key day to day business processes and in identifying, assessing, quantifying, managing and mitigating the risks taken by us and our businesses.

For a complete discussion of AIG's risk management program, see Part II, Item 7. MD&A Enterprise Risk Management in the 2012 Annual Report.

Enterprise Risk Management (ERM)

Our ERM framework provides senior management with a consolidated view of our risk appetite and major risk positions.

In each of our business units, senior leaders and executives approve risk-taking policies and targeted risk tolerance within the ERM framework while working with ERM to mitigate risks across the firm.

Risk management is an integral part of how we manage our core businesses.

Credit Risk Management

Overview

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of counterparty's credit ratings.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from fixed maturity investments, equity securities, deposits, reverse repurchase agreements and repurchase agreements, commercial paper, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees and letters of credit accepted as collateral.

Our credit risks are managed at the corporate level within ERM. ERM is assisted by credit functions headed by seasoned credit officers in all the business units, whose primary role is to assure appropriate credit risk management relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development and maintenance of credit risk policies and procedures.

Responsibilities of the CCO and credit executives include:

developing and implementing our company-wide credit policies;

approving delegated credit authorities to our credit executives;

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ITEM 2 / ENTERPRISE RISK MANAGEMENT

managing the approval process for requests for credit limits, program limits and credit transactions above authorities or where concentrations of risk may exist or be incurred;

aggregating globally all credit exposure data by counterparty, country, sector and industry and reporting risk concentrations regularly to and reviewing with senior management;

administering regular portfolio credit reviews of investment, derivative and credit-incurring business units and recommending corrective actions where required;

conducting credit research on countries, sectors and asset classes where risk concentrations may exist;

developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process; and

approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies in all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require third-party guarantees, reinsurance or collateral, such as cash, letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, letters of credit and trust collateral accounts as credit exposure and include them in our risk concentration exposure data. We identify our aggregate credit exposures to our underlying counterparty risks.

Largest Credit Concentrations

Our single largest credit exposure, the U.S. Government, was 25 percent of Total equity at both June 30, 2013 and December 31, 2012. Exposure to the U.S. Government primarily includes credit exposure related to U.S. Treasury and government agency securities and to direct and guaranteed exposures to U.S. government-sponsored entities, primarily the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) based upon their U.S. Government conservatorship. Based on our internal risk ratings, at June 30, 2013, our largest below investment grade-rated credit exposure, apart from ILFC leasing arrangements secured by aircraft with airlines having below investment grade ratings, was related to a non-financial corporate counterparty. That exposure was 0.6 percent of Total equity at both June 30, 2013 and December 31, 2012.

Government Credit Concentrations (non-U.S.)

Our total direct and guaranteed credit exposure to non-U.S. governments is \$21.1 billion at June 30, 2013, compared to \$23.7 billion in December 31, 2012. Our single largest concentration in this sector was to the government of Japan in the amount of \$6.5 billion at June 30, 2013. Most of these securities were held in the investment portfolios of our Japanese insurance operations and are yen denominated.

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The following table presents our aggregate credit exposures to non-U.S. governments and their agencies, dependent state-owned enterprises, financial institutions and local governments:

<i>(in millions)</i>	June 30, 2013	December 31, 2012*
Japan	\$ 6,454	\$ 8,109
Canada	2,629	2,718
Germany	1,293	1,446
France	1,119	1,207
China	936	926
Brazil	733	601
South Korea	696	693
Singapore	635	631
United Kingdom	620	816
Mexico	511	552
Other	5,513	6,032
Total	\$ 21,139	\$ 23,731

* The prior period has been changed to reflect the inclusion of Brazil and the exclusion of Australia.

Financial Institution Concentrations

Our single largest industry credit exposure at June 30, 2013 was to the global financial institutions sector as a whole, which includes banks and finance companies, securities firms, and insurance and reinsurance companies, many of which can be highly correlated at times of market stress. As of June 30, 2013, credit exposure to this sector was \$79.1 billion, or 81 percent of Total equity compared to 87 percent at December 31, 2012.

At June 30, 2013:

\$74.8 billion, or 95 percent, of these global financial institution credit exposures were considered investment grade based on our internal ratings.

\$4.3 billion, or 5 percent, were considered non-investment grade based on our internal ratings. Aggregate credit exposure to the ten largest below investment grade-rated financial institutions was \$1.9 billion.

Our aggregate credit exposure to fixed maturity securities of the financial institution sector amounted to \$32.6 billion.

Short-term bank deposit placements, reverse repurchase agreements, repurchase agreements and commercial paper issued by financial institutions (primarily commercial banks), operating account balances with banks and bank-issued commercial letters of credit supporting insurance credit exposures were \$14.0 billion, or 18 percent of the total global financial institution credit exposure.

The remaining credit exposures to this sector were primarily related to reinsurance recoverables, collateral extended to counterparties mostly pursuant to derivative transactions, derivatives, and captive fronting risk management programs for these financial institutions.

European Concentrations

We actively monitor our European credit exposures, especially those exposures to issuers in the Euro-Zone periphery. We use various stress assumptions to identify issuers and securities warranting review by senior management and to determine the need for mitigating actions. As a mitigating action, we typically decide not to renew maturing exposures or, when the opportunity presents itself, to sell or to tender securities. To date, we have not actively used credit default protection. We periodically evaluate the financial condition of issuers and adjust internal risk ratings as warranted.

The result of these continuing reviews has led us to believe that our combined credit risk exposures in the Euro-Zone are manageable risks given the type and size of exposure and the credit quality and size of the issuers.

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The following table presents our aggregate United Kingdom and European credit exposures (excluding ILFC) by major sector:

<i>(in millions)</i>	June 30, 2013					December 31, 2012	Total
	Sovereign	Financial Institution	Non- Financial Corporates	Structured Products/ Other(a)	Total		
Euro-Zone countries:							
France	\$ 1,119	\$ 2,464	\$ 7,118	\$ 173	\$ 10,874	\$	10,533
Germany	1,293	4,089	3,886	133	9,401	\$	9,248
Netherlands	235	4,218	2,240	1,645	8,338	\$	8,333
Spain	155	666	2,303	208	3,332	\$	4,067
Italy	90	343	1,908	217	2,558	\$	2,848
Belgium	146	199	854		1,199	\$	1,174
Ireland		97	996		1,093	\$	1,018
Luxembourg		21	616	33	670	\$	666
Austria	141	152	206		499	\$	523
Finland	127	32	299		458	\$	432
Other Euro-Zone	30	19	180	11	240	\$	306
Total Euro-Zone	\$ 3,336	\$ 12,300	\$ 20,606	\$ 2,420	\$ 38,662	\$	39,148
Remainder of Europe							
United Kingdom	\$ 620	\$ 8,410	\$ 15,676	\$ 4,693	\$ 29,399	\$	30,372
Switzerland	70	5,135	2,845		8,050	\$	7,290
Sweden	112	2,517	511		3,140	\$	3,643
Other remainder of Europe	1,007	914	2,375	955	5,251	\$	5,612
Total remainder of Europe	\$ 1,809	\$ 16,976	\$ 21,407	\$ 5,648	\$ 45,840	\$	46,917
Total	\$ 5,145	\$ 29,276	\$ 42,013	\$ 8,068	\$ 84,502	\$	86,065

(a) Other represents mortgage guaranty insurance risk-in-force (\$411 million), primarily in Italy (\$169 million) and Spain (\$109 million).

Aggregate credit exposure to European governments totaled \$5.1 billion at June 30, 2013, compared to \$6.0 billion at December 31, 2012. Many of the European governments' ratings have been downgraded by one or more of the major rating agencies, occurring mostly in countries in the Euro-Zone periphery where our government credit exposures (Spain, Italy and Portugal) totaled \$248 million at June 30, 2013. The downgrades primarily reflect continued recessionary conditions, large government budget deficits, rising government debt-to-GDP ratios and large financing requirements of these countries. These credit exposures primarily included available-for-sale and trading securities (at fair value) issued by these governments. At June 30, 2013, we had no direct or guaranteed credit exposure to the governments of Greece, Ireland, Cyprus or Slovenia.

Our exposure to European financial institutions at June 30, 2013 included \$17.4 billion of credit exposures to European banks, of which \$16.3 billion were considered investment grade based on our internal ratings. Aggregate below investment grade rated credit exposures to European banks were \$1.1 billion. Our credit exposures to banks domiciled in the Euro-Zone countries totaled \$7.5 billion at June 30, 2013, of which \$4.4 billion were fixed maturity securities. Credit exposures to banks based in the Euro-Zone periphery (Spain, Italy, Ireland, Greece, and Portugal) totaled \$977 million, of which \$729 million were fixed maturity securities. These credit exposures were primarily to the largest banks in Spain and Italy. Credit exposures to banks based in France totaled \$1.5 billion at June 30, 2013, of which \$850 million were fixed maturity securities. Our credit exposures were predominantly to the largest banks in these countries.

In addition, our exposure at June 30, 2013 to European financial institutions included \$11.8 billion of aggregate credit exposure to non-bank institutions, mostly insurers and reinsurers, with \$9.3 billion, or 79 percent, of credit exposure representing reinsurance recoverable balances. Reinsurance recoverables were primarily to highly rated reinsurers based in Switzerland, Germany and the United Kingdom. At June 30, 2013, \$1.5 billion of the aggregate credit exposure to non-banks was fixed maturity securities, of which 96 percent were considered investment grade based on our internal ratings.

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Of the \$20.6 billion of non-financial institution corporate exposure to Euro-Zone countries at June 30, 2013, 95 percent was to fixed maturity securities (\$11.2 billion) and insurance-related products (\$8.4 billion), with the majority of the insurance exposures being trade credit insurance (\$3.3 billion), captive fronting programs (\$3.1 billion), and surety bonds (\$1.4 billion). Our exposure to France of \$7.1 billion at June 30, 2013 represented the largest single non-financial corporate country exposure within the Euro-Zone, of which \$2.7 billion were fixed maturity securities. Approximately two-thirds of the French exposures were to issuers in the utilities, oil and gas, and telecommunications industries. Euro-Zone periphery non-financial institution corporate exposures (\$5.4 billion) at June 30, 2013 were heavily weighted towards large multinational corporations or issuers in relatively stable industries, such as regulated utilities (22 percent), telecommunications (15 percent), and oil and gas (9 percent).

Of the \$7.7 billion at June 30, 2013 of United Kingdom and European structured product exposures (largely consisting of residential mortgage-backed, commercial mortgage-backed and other asset-backed securities), United Kingdom structured products accounted for 72 percent, while the Netherlands and Germany comprised 21 percent and 2 percent, respectively. Structured product exposures to the Euro-Zone periphery accounted for 2 percent of the total. Approximately 78 percent of the United Kingdom and European structured products exposures were rated A or better at June 30, 2013 based on external rating agency ratings.

In addition, we had commercial real estate related net equity investments in Europe totaling \$420 million and related unfunded commitments of \$88 million at June 30, 2013.

The following table presents our aggregate United Kingdom and European credit exposures (excluding ILFC) by product type:

<i>(in millions)</i>	June 30, 2013						December 31, 2012 Total
	Fixed Maturity Securities(a)	Cash and Short-Term Investments(b)	Insurance Credit Exposures(c)	Reinsurance Recoverables	Other(d)	Total	
Euro-Zone countries:							
France	\$ 4,932	\$ 352	\$ 3,886	\$ 566	\$ 1,138	\$ 10,874	\$ 10,533
Germany	4,571	293	1,942	2,530	65	9,401	9,248
Netherlands	5,948	36	1,751	579	24	8,338	8,333
Spain	1,830	100	1,348	53	1	3,332	4,067
Italy	1,546	2	931	69	10	2,558	2,848
Belgium	852	1	340	3	4	1,200	1,174
Ireland	845	56	192			1,093	1,018
Luxembourg	330	8	332	1		671	666
Austria	289	7	198	4		498	523
Finland	317	7	131	3		458	432
Other Euro-Zone	95	7	137			239	306
Total Euro-Zone	\$ 21,555	\$ 869	\$ 11,188	\$ 3,808	\$ 1,242	\$ 38,662	\$ 39,148
Remainder of Europe							
United Kingdom	\$ 16,121	\$ 1,236	\$ 8,244	\$ 2,251	\$ 1,547	\$ 29,399	\$ 30,372
Switzerland	3,088	185	1,077	3,700		8,050	7,290
Sweden	1,556	1,270	311	3		3,140	3,643
Other remainder of Europe	3,150	515	1,345	26	215	5,251	5,612

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Total remainder of Europe	\$	23,915	\$	3,206	\$	10,977	\$	5,980	\$	1,762	\$	45,840	\$	46,917
Total	\$	45,470	\$	4,075	\$	22,165	\$	9,788	\$	3,004	\$	84,502	\$	86,065

(a) Fixed maturity securities primarily includes available-for-sale and trading securities reported at fair value of \$42.3 billion (\$42.3 billion amortized cost), and \$3.1 billion (\$3.0 billion amortized cost), respectively.

(b) Cash and short-term investments include bank deposit placements (\$2.2 billion), collateral posted to counterparties against structured products (\$1.6 billion), operating accounts (\$76 million) and securities purchased under agreements to resell (\$45 million).

(c) Insurance credit exposures primarily consist of captive fronting management programs (\$10.0 billion), trade credit insurance (\$6.7 billion), surety bonds (\$2.0 billion), commercial letters of credit supporting insurance credit exposures (\$768 million) and mortgage guaranty insurance risk-in-force (\$411 million).

(d) Other primarily consists of derivative transactions reported at fair value.

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ITEM 2 / ENTERPRISE RISK MANAGEMENT

At June 30, 2013, approximately 90 percent of fixed maturity securities in the United Kingdom and European exposures were considered investment grade based on our internal ratings. European financial institution fixed maturity securities exposure was \$9.8 billion, of which \$1.0 billion were covered bonds (debt securities secured by a pool of financial assets sufficient to cover any bondholder claims and that have full recourse to the issuing bank). During the second quarter of 2013, \$4.4 billion of fixed maturity securities were issued by banks domiciled in the Euro-Zone countries. Our subordinated debt holdings and Tier 1 and preference share securities in these banks totaled \$828 million and \$300 million, respectively, at June 30, 2013. These exposures were predominantly to the largest banks in those countries.

Other Credit Concentrations

We have a risk concentration in the U.S. municipal sector, primarily through the investment portfolios of our insurance companies. A majority of these securities were held in available-for-sale portfolios of our domestic property and casualty insurance companies. See Investments Available for Sale Investments herein for further details. We had \$385 million of additional exposure to the municipal sector outside of our insurance company portfolios at June 30, 2013, compared to \$464 million at December 31, 2012. These exposures consisted of derivatives and trading securities (at fair value), and exposure related to other insurance and financial services operations.

We have a risk concentration in the residential mortgage sector in the form of non-agency RMBS, CDO of RMBS as well as our mortgage guaranty insurance business. See Investments Available for Sale Investments herein for further details on RMBS and CDO investments. The net risk-in-force for UGC was \$35.6 billion at June 30, 2013, of which exposure in the United States was \$33.6 billion. At June 30, 2013, UGC had no concentration of exposure in any one state that exceeded 10 percent of UGC's total United States exposure.

We also have a risk concentration in the commercial real estate sector in the form of non-agency CMBS, CDO and CMBS as well as commercial mortgage whole loans and equity investments in commercial real estate. See Investments Available for Sale Investments and Investments Commercial Mortgage Loans herein for further details.

We also monitor our aggregate cross-border exposures by country and region. Cross-border exposure is defined as an underlying risk that is taken within a country or jurisdiction other than the country or jurisdiction in which an AIG business unit taking the risk is domiciled. These cross-border exposures include both aggregated cross-border credit exposures to unrelated third parties and cross-border investments in our own international subsidiaries. Five countries had cross-border exposures in excess of 10 percent of Total equity at both June 30, 2013 and December 31, 2012. Based on our internal risk ratings, at June 30, 2013, three countries were rated AAA and two were rated AA. The two largest cross-border exposures were to the United Kingdom and Bermuda.

We regularly review concentration reports in the categories listed above as well as credit trends by risk ratings and credit spreads. We periodically adjust limits and review exposures for risk mitigation to provide reasonable assurance that we do not incur excessive levels of credit risk and that our credit risk profile is properly calibrated across business units.

Market Risk Management

Market risk is defined as the potential loss arising from adverse fluctuations in interest rates, foreign currencies, equity and commodity prices, and their levels of volatility. Market risk includes credit spread risk, the potential loss arising from adverse fluctuations in credit spreads of securities or counterparties.

We are exposed to market risks, primarily within our insurance businesses and GCM. In our insurance operations, market risk results primarily from potential mismatches in our asset-liability exposures, rather than speculative positioning. Specifically, our life insurance and retirement businesses collect premiums or deposits from policyholders and invest the proceeds in predominantly long-term, fixed maturity securities. We earn a spread between the asset yield and the cost payable to policyholders. We manage the business so that the cash flows from invested assets are sufficient to meet policyholder obligations when they become due, without the need to sell assets prematurely into a potentially distressed market. In periods of severe market volatility, depressed and illiquid fair values on otherwise performing investments diminish shareholders' equity even without actual credit event related losses.

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ITEM 2 / ENTERPRISE RISK MANAGEMENT

Our market exposures can be categorized as follows:

Benchmark interest rates. Benchmark interest rates are also known as risk-free interest rates and are associated with either the government/treasury yield curve or the swap curve. The fair value of our significant fixed maturity securities portfolio changes as benchmark interest rates change.

Credit spread or risk premium. Credit spread risk is the potential for loss due to a change in an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument.

Equity and alternative investment prices. We are exposed to equity and alternative investment prices affecting a variety of instruments. These include direct investments in common stock and mutual funds, minimum benefit guarantees embedded in the structure of certain variable annuity and variable life insurance products and other equity-like investments, such as hedge funds and private equity funds, private equity investments, commercial real estate and real estate funds.

Foreign currency exchange rates. We are a globally diversified enterprise with significant income, assets and liabilities denominated in, and significant capital deployed in, a variety of currencies.

Duration/key rate duration. Duration is the measure of the sensitivities of a fixed-income instrument to the changes in the benchmark yield curve. Key rate duration measures sensitivities to the movement at a given term point on the yield curve.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward-looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 10 percent immediate and simultaneous decrease in world-wide equity markets.

Stress testing. Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spread of RMBS or CMBS during 2008.

VaR. Value at Risk (VaR) is a summary statistical measure that uses the estimated volatility and correlation of market factors, and a management-determined level of confidence, to estimate how frequently a portfolio of risk exposures could be expected to lose at least a specified amount. As an example, Federal Reserve's Market Risk Measure specifies a VaR based approach to calculate market risk equivalent assets for capital ratio calculations.

Insurance Operations Portfolio Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

<i>(dollars in millions)</i>	Exposure	Sensitivity Factor	Effect
------------------------------	-----------------	---------------------------	---------------

	June 30, December 31,			June 30, December 31,	
	2013	2012		2013	2012
Yield sensitive assets	\$ 290,712	\$ 305,809	100 bps parallel increase in all yield curves	\$ (16,177)	\$ (16,005)
Equity and alternative			20% decline in stock prices and value		
investments exposure	\$ 27,253	\$ 27,131	of alternative investments	\$ (5,451)	\$ (5,426)
Foreign currency exchange			10% depreciation of all foreign currency		
rates net exposure	\$ 9,669	\$ 9,106	exchange rates against the U.S. dollar	\$ (967)	\$ (911)

Exposures to yield curve movements include fixed maturity securities, loans, finance receivables and short-term investments, but exclude consolidated separate account assets. Total yield-sensitive assets decreased 4.9 percent or

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ITEM 2 / ENTERPRISE RISK MANAGEMENT

approximately \$15.1 billion, compared to December 31, 2012, primarily due to a net decrease in fixed income securities and other fixed assets of \$12.3 billion, and a decrease in cash equivalents of \$2.8 billion.

Exposures to equity and alternative investment prices include investments in common stock, preferred stocks, mutual funds, hedge funds, private equity funds, commercial real estate and real estate funds, but exclude consolidated separate account assets and consolidated managed partnerships and funds. Total exposure in these areas increased 0.5 percent, or approximately \$123 million, compared to December 31, 2012, primarily due to an increase of \$239 million related to alternative investments and an increase in common equity securities of \$37 million. These increases were partially offset by a decrease in other equity investments of \$59 million, a decrease in real estate investments of \$57 million and decrease in mutual fund value of \$37 million.

Exposures to foreign currency exchange rates reflect our consolidated non-U.S. dollar net capital investments on a GAAP basis. Foreign currency exchange rates net exposure increased 6.2 percent, or \$563 million, compared to December 31, 2012. This was primarily due to an increase in Hong Kong dollar exposure of \$592 million resulting from AIG Life and Retirement's investment in PICC Group, an increase in Euro exposure of \$101 million resulting from a reduction in Euro-denominated debt outstanding and a net increase across other currencies of \$259 million. The increase was partially offset by a decrease in Euro exposure of \$202 million at AIG Europe Limited, a decrease in British Pound exposure of \$108 million resulting from British Pound exchange rate decreasing and a decrease in Canadian Dollar exposure of \$108 million resulting from a dividend payment from Chartis Insurance Company of Canada.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. This should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

Liquidity Risk Management

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations.

The failure to appropriately manage liquidity risk can result in reduced operating flexibility, increased costs, and reputational harm. Because liquidity is critically important, our liquidity governance includes a number of liquidity and funding policies and monitoring tools to address both AIG-specific, broader industry and market related liquidity events.

Sources of Liquidity risk can include, but are not limited to:

financial market movements – significant changes in interest rates can provide incentives for policyholders to surrender their policies. Changes in markets can impact collateral posting requirements or limit our ability to sell assets at reasonable values to meet liquidity needs due to unfavorable market conditions, inadequate market depth, or other investors seeking to sell the same or similar assets;

potential reputational events or credit downgrade – changes can have an impact on policyholder cancellations and withdrawals or impact collateral posting requirements; and

catastrophic events, including natural and man-made disasters, that can increase policyholder claims.

The principal objective of ERM's liquidity risk framework is to protect AIG's liquidity position and identify a diversity of funding sources available to meet actual and contingent liabilities during both normal and stress periods.

We defined our risk appetite to include a liquidity target. AIG Parent liquidity risk tolerance levels are established for base and stress scenarios over a two-year time horizon designed to ensure that funding needs are met under varying market conditions. If we project that we will breach the tolerance, we will assess and determine the appropriate liquidity management actions. However, the market conditions in effect at

that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

Additionally, each business unit is responsible for managing liquidity within a framework designed for the measurement and monitoring of liquidity risks inherent in that business. Current cash and liquidity positions are reviewed for changes and against minimum liquidity levels. Future cash inflows and outflows are tracked through cash flow forecasting. If the business unit projects a breach of the minimum liquidity levels, the amount of required liquidity resources will be identified and we will determine any actions to be taken. Business unit level key indicators are assessed to provide advance warning of potential liquidity risks.

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ITEM 2 / CRITICAL ACCOUNTING ESTIMATES

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires the application of accounting policies that often involve a significant degree of judgment.

classification of ILFC as held for sale;

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

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

recoverability of assets including reinsurance assets;

estimated gross profits for investment-oriented products;

other-than-temporary impairments of financial instruments;

liabilities for legal contingencies; and

fair value measurements of certain financial assets and liabilities.

See Note 1 to the Condensed Consolidated Financial Statements for additional information.

These accounting estimates require the use of assumptions about matters that may be highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, our consolidated financial condition and results of operations could be materially affected. The following discussion updates critical accounting estimates included in the 2012 Annual Report. For a complete discussion of AIG's critical accounting estimates, you should read this section in conjunction with Part II, Item 7. MD&A Critical Accounting Estimates in the 2012 Annual Report.

Classification of ILFC as Held for Sale

We report a business as held for sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months, which may require significant judgment, and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized.

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

Table of Contents**ITEM 2 / CRITICAL ACCOUNTING ESTIMATES**

consummate) other offers for ILFC and may continue to pursue (but not engage in widespread solicitation of orders for, or request effectiveness of) the alternative of a public offering.

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

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

Recoverability of Net Deferred Tax Asset

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

We consider a number of factors in order to reliably estimate future taxable income, so we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs) and nonlife capital loss carryforwards. These factors include forecasts of future income for each of our businesses and actual and planned business and operational changes, both of which include assumptions about future macroeconomic and AIG-specific conditions and events. We also subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies and stress scenarios, all resulted in sufficient taxable income to achieve realization of the tax attributes (other than life-insurance-business capital loss carryforwards) prior to their expiration.

Our ability to utilize capital loss carryforwards in AIG Life and Retirement depends, in part, on our ability to sell fixed maturity securities in a gain position. Changes in market conditions, including interest rates rising in excess of our projections, may result in a reduction in projected taxable gains and reestablishment of a valuation allowance.

See Note 15 to the Condensed Consolidated Financial Statements for a discussion of AIG's framework for assessing the recoverability of its deferred tax asset.

Fair Value Measurements of Certain Financial Assets and Liabilities

See Note 5 to the Condensed Consolidated Financial Statements for additional information about the measurement of fair value of financial assets and financial liabilities and AIG's accounting policy regarding the incorporation of credit risk in fair value measurements.

The following table presents the fair value of fixed maturity and equity securities by source of value determination:

June 30, 2013 <i>(in billions)</i>	Fair Value	Percent of Total
Fair value based on external sources ^(a)	\$ 270	93%
Fair value based on internal sources	19	7
Total fixed maturity and equity securities ^(b)	\$ 289	100%

- (a) Includes \$25 billion for which the primary source is broker quotes.
- (b) Includes available for sale and trading securities.

Level 3 Assets and Liabilities

Assets and liabilities recorded at fair value in the Condensed Consolidated Balance Sheets are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs

Table of Contents**ITEM 2 / CRITICAL ACCOUNTING ESTIMATES**

available in the marketplace used to measure the fair value. See Note 5 to the Condensed Consolidated Financial Statements for additional information.

The following table presents the amount of assets and liabilities measured at fair value on a recurring basis and classified as Level 3:

<i>(in billions)</i>	June 30, 2013	Percentage of Total	December 31, 2012	Percentage of Total
Assets	\$ 45.4	8.4%	\$ 40.5	7.4%
Liabilities	3.0	0.7	4.1	0.9

Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when valuing the asset or liability. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

We classify fair value measurements for certain assets and liabilities as Level 3 when they require significant unobservable inputs in their valuation, including contractual terms, prices and rates, yield curves, credit curves, measures of volatility, prepayment rates, default rates, mortality rates and correlations of such inputs.

The following paragraphs describe the methods we use to measure fair value on a recurring basis for super senior credit default swaps classified in Level 3. See Note 6 to the Consolidated Financial Statements in the 2012 Annual Report for a discussion of the valuation methodologies for other assets classified in Level 3, including certain fixed maturity securities and certain other invested assets, and Note 5 to the Condensed Consolidated Financial Statements herein for a discussion of transfers of Level 3 assets and liabilities.

Super Senior Credit Default Swap Portfolio

The entities included in GCM wrote credit protection on the super senior risk layer of collateralized loan obligations (CLOs), multi-sector CDOs and diversified portfolios of corporate debt and prime residential mortgages through 2006. In these transactions, AIG is at risk of credit performance on the super senior risk layer related to such assets.

See Notes 5 and 9 to the Condensed Consolidated Financial Statements for information about the Regulatory Capital, Multi-Sector CDO, Corporate Debt/CLO and other portfolios.

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on our calculation of the unrealized market valuation loss related to the super senior credit default swap portfolio. For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the Binomial Expansion Technique (BET) model is used to estimate the change in the fair value of the derivative liability. Of the total \$3.6 billion net notional amount of CDS written on multi-sector CDOs outstanding at June 30, 2013, a BET value is available for \$2.4 billion net notional amount. No BET value is determined for \$1.2 billion of CDS written on European multi-sector CDOs as prices on the underlying securities held by the CDOs are not provided by collateral managers; instead these CDS are valued using counterparty prices. Therefore, sensitivities disclosed below apply only to the net notional amount of \$2.4 billion.

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The following table presents key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability by ABS category at June 30, 2013 corresponding to changes in these key inputs:

<i>(dollars in millions)</i>	Average Inputs Used at June 30, 2013	Change	Increase (Decrease) to Fair Value of Derivative Liability						
			Entire Portfolio	RMBS Prime	RMBS Alt-A	RMBS Subprime	CMBS	CDOs	Other
Bond prices	46 points	Increase of 5 points	\$ (125)	\$ (2)	\$ (7)	\$ (58)	\$ (39)	\$ (10)	\$ (9)
		Decrease of 5 points	125	2	7	53	41	9	13
Weighted average life	5.99 years	Increase of 1 year	9			6	3		
		Decrease of 1 year	(14)			(9)	(4)		(1)
Recovery rates	17%	Increase of 10%	(11)		(2)	(5)	(2)	(2)	
		Decrease of 10%	14		1	8	3	1	1
Diversity score ^(a)	14	Increase of 5	(5)						
		Decrease of 5	8						
Discount curve ^(b)	N/A	Increase of 100bps	3						

(a) The diversity score is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible.

(b) The discount curve is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible. Furthermore, for this input it is not possible to disclose a weighted average input as a discount curve consists of a series of data points.

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ITEM 2 / REGULATORY ENVIRONMENT

Regulatory Environment

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

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

In addition to the information set forth in this Quarterly Report on Form 10-Q, including in Part II, Item 1A. Risk Factors, our regulatory status is also discussed in Part I, Item 1. Business Regulation, Part I, Item 1A. Risk Factors Regulation, Part II, Item 7. MD&A Liquidity and Capital Resources Regulation and Supervision and Note 20 to the Consolidated Financial Statements in the 2012 Annual Report.

Federal Reserve Supervision

On July 8, 2013, AIG received notice from the U.S. Treasury that the Financial Stability Oversight Council (Council) has made a final determination that AIG should be supervised by the Board of Governors of the Federal Reserve System (FRB) as a systemically important financial institution (SIFI) pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). As a SIFI, we will be regulated by the FRB both in that capacity and, for as long as AIG continues to control an insured depository institution, in our capacity as a savings and loan holding company (SLHC). The regulations applicable to SIFIs and to SLHCs, when all have been adopted as final rules, may differ materially from each other. We will also be subject to additional regulatory requirements, including heightened prudential standards. For a description of those standards as currently proposed and a discussion of the potential effects on us as a SIFI, see Part II, Item 1A. Risk Factors - Regulation.

Other Regulatory Developments

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

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

The FSB has also charged the IAIS with developing a template for measuring systemic risks posed by insurer groups. The IAIS has requested data from selected insurers around the world to determine which elements of the insurance sector, if any, could materially and adversely impact other parts of the global financial services sector (e.g., commercial and investment banking, securities trading, etc.). The IAIS has provided its assessment template to the FSB. Based on this assessment template, on July 18, 2013, the FSB, in consultation with the IAIS and national

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ITEM 2 / REGULATORY ENVIRONMENT

authorities, identified an initial list of Global Systemically Important Insurers (G-SIIs), which includes AIG. As a G-SII, AIG will be subject to a policy framework that includes recovery and resolution planning requirements, enhanced group-wide supervision and higher loss absorbency capital requirements. It is expected that the G-SII policy framework will be fully implemented by 2019.

The IAIS is also developing a ComFrame, a Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs), which includes additional supervisory oversight based on its ICPs but also adds requirements and supervisory processes pertaining to the international business activities of IAIGs. As currently delineated under the ComFrame, AIG meets the parameters set forth to define an IAIG. While we currently do not know when any ComFrame directives will be finalized and become effective, the IAIS will undertake a field testing of the ComFrame, including the possibility of additional capital requirements for IAIGs, which is expected to commence in the latter part of 2013. It is expected that the ComFrame would be fully implemented by 2018.

Legislation in the European Union could also affect our international insurance operations. The Solvency II Directive (2009/138/EEC) (Solvency II), which was adopted on November 25, 2009 and is expected to become effective in 2016, reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we, along with other insurance companies, could be required to be supervised under Solvency II standards. Whether the U.S. insurance regulatory regime will be deemed "equivalent" is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

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

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ITEM 2 / GLOSSARY

GLOSSARY

Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

Accident year combined ratio, as adjusted the combined ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments, and the impact of reserve discounting. Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of \$10 million each.

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

Acquisition ratio acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs, certain costs of personnel engaged in sales support activities such as underwriting, and the change in deferred acquisition costs. Acquisition costs that are incremental and directly related to successful sales efforts are deferred and recognized over the coverage periods of related insurance contracts. Acquisition costs that are not incremental and directly related to successful sales efforts are recognized as incurred.

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

AIG Life and Retirement Operating income (loss) Operating income (loss) is derived by excluding the following items from net income (loss): legal settlements related to legacy crisis matters, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities (net of interest expense), net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses.

AIG Life and Retirement Premiums and deposits includes life insurance premiums and deposits on annuity contracts, guaranteed investments contracts and mutual funds.

AIG Property Casualty Net premiums written represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Condensed Consolidated Balance Sheets.

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

BET Binomial Expansion Technique A model that generates expected loss estimates for CDO tranches and derives a credit rating for those tranches.

Book Value Per Common Share Excluding Accumulated Other Comprehensive Income (loss) (AOCI) is used to show the amount of our net worth on a per-share basis. Book Value Per Common Share Excluding AOCI is derived by dividing Total AIG shareholders' equity,

excluding AOCI, by Total common shares outstanding.

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ITEM 2 / GLOSSARY

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA Credit Support Annex A legal document that provides for collateral postings at various ratings and threshold levels.

DAC Deferred Policy Acquisition Costs Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

Expense ratio Sum of acquisition expenses and general operating expenses, divided by net premiums earned.

First-Lien Priority over all other subordinate liens or claims on a property in the event of default on a mortgage.

General operating expense ratio general operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude claims adjustment expenses, acquisition expenses, and investment expenses.

GIC/GIA Guaranteed Investment Contract/Guaranteed Investment Agreement A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

IBNR Incurred But Not Reported Estimates of claims that have been incurred but not reported to us.

LAE Loss Adjustment Expenses The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.

Loss Ratio Claims and claims adjustment expenses incurred divided by net premiums earned. Claims adjustment expenses are directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees, and claims department personnel costs.

Loss reserve development The increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims.

Loss reserves Liability for unpaid claims and claims adjustment expense. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

LTV Loan-to-Value Ratio Principal amount of loan amount divided by appraised value of collateral securing the loan.

Net premiums written Represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Condensed Consolidated Balance Sheets.

Noncontrolling interest The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

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

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

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ITEM 2 / GLOSSARY

Prior year development Increase or decrease in estimates of losses and loss expenses for prior years that is included in earnings.

RBC Risk-Based Capital A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premium Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

Reinsurance The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

Rescission Denial of claims and termination of coverage on loans related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms.

Retained Interest Category within AIG's Other operations that includes the fair value gains or losses, prior to their sale, of the AIA ordinary shares retained following the AIA initial public offering and the MetLife, Inc. (MetLife) securities that were received as consideration from the sale of American Life Insurance Company (ALICO) and the fair value gains or losses, prior to the FRBNY liquidation of ML III assets in 2012, on the retained interest in ML III.

Second-lien Subordinate in ranking to the first-lien holder claims on a property in the event of default on a mortgage.

Severe losses Individual non-catastrophe first party losses greater than \$10 million, net of related reinsurance.

SIA Sales Inducement Asset Represents amounts that are credited to policyholder account balances related to the enhanced crediting rates that a seller offers on certain of its annuity products.

SIFI Systemically Important Financial Institutions Financial institutions are deemed systemically important (that is, the failure of the financial institution could pose a threat to the financial stability of the United States) by the Financial Stability Oversight Council (FSOC) based on a three-stage analytical process.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The Solvency II Directive (2009/138/EEC), was adopted on November 25, 2009 and is expected to become effective in January 2016.

SSDMF Social Security Death Master File A database of deceased individuals, most of whom were issued a social security number during their lifetimes, maintained by the U.S. Social Security Administration.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VOBA Value of Business Acquired Present value of projected future gross profits from in-force policies from acquired businesses.

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ITEM 2 / ACRONYMS

ACRONYMS

A&H Accident and Health Insurance	GMWB Guaranteed Minimum Withdrawal Benefits
ABS Asset-Backed Security	ISDA International Swaps and Derivatives Association, Inc.
CDO Collateralized Debt Obligation	NAIC National Association of Insurance Commissioners
CDS Credit Default Swap	NM Not Meaningful
CLO Collateralized Loan Obligations	OTC Over-the-Counter
CMA Capital Maintenance Agreement	OTTI Other-Than-Temporary Impairment
CMBS Commercial Mortgage-Backed Securities	RMBS Residential Mortgage-Backed Securities
FASB Financial Accounting Standards Board	S&P Standard & Poor's Financial Services LLC
FRBNY Federal Reserve Bank of New York	SEC Securities and Exchange Commission
GAAP Accounting principles generally accepted in the United States of America	VIE Variable Interest Entity
GMDB Guaranteed Minimum Death Benefits	

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ITEM 3. / QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Included in Part I, Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations Enterprise Risk Management.

ITEM 4. / CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by AIG's management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, AIG's Chief Executive Officer and Chief Financial Officer have concluded that AIG's disclosure controls and procedures were effective as of June 30, 2013.

There has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1 / LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 10 to the Condensed Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 1A. / RISK FACTORS

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed throughout Part I, Item 1A. Risk Factors in AIG's Annual Report on Form 10-K for the year ended December 31, 2012.

REGULATION

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

We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect our businesses, results of operations or cash flows, or require us to raise additional capital.

We are regulated by the Board of Governors of the Federal Reserve System (FRB) and subject to its examination, supervision and enforcement authority and reporting requirements as a saving and loan holding company (SLHC) and as a systemically important financial institution (SIFI).

As a result of our regulation by the FRB as an SLHC:

The FRB exercises general supervisory authority over us.

The FRB, as a prudential matter, may limit our ability to pay dividends and purchase shares of AIG Common Stock.

The FRB is required to impose minimum leverage and risk-based capital requirements on us that are not less than those applicable to insured depository institutions.

The FRB, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have established revised minimum leverage and risk-based capital requirements that apply to bank holding companies and SLHCs, as well as to insured depository institutions, such as AIG Federal Savings Bank. The final rules do not apply to SLHCs that are substantially engaged in insurance underwriting activities. The Federal Reserve expects to implement a capital framework for SLHCs that are substantially engaged in insurance underwriting activities by the time covered SLHCs must comply with the final rule in 2015.

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On July 8, 2013, we received notice from the Department of the Treasury that the Financial Stability Oversight Council (Council) has made a final determination that we should be supervised by the FRB as a SIFI pursuant to Dodd-Frank. As a SIFI, we are subject to the examination, enforcement and supervisory authority of the FRB and will be subject to additional regulatory requirements, including heightened prudential standards, some of which have been proposed but are not yet adopted in final form. As a SIFI, we anticipate we will be subject to:

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

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stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress; and

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

Furthermore, if the Council were to make an additional separate determination that AIG poses a "grave threat" to U.S. financial stability, we would be required to maintain a debt-to-equity ratio of no more than 15:1 and the FRB may:

limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;

restrict our ability to offer specified financial products;

require us to terminate specified activities;

impose conditions on how we conduct our activities; and

with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require us to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

In addition, the regulations applicable to SIFIs and to SLHCs, when all have been adopted as final rules, may differ materially from each other.

Further, if we continue to control AIG Federal Savings Bank or another insured depository institution, as of July 21, 2014, we will be required to conform to the "Volcker Rule", which prohibits "proprietary trading" and the sponsoring or investing in "covered funds". The term "covered funds" includes hedge, private equity or similar funds and, in certain cases, issuers of asset backed securities if such securities have equity-like characteristics. These prohibitions could have a substantial impact on our investment portfolios as they are currently managed. Even if we no longer controlled an insured depository institution, Dodd-Frank authorizes the FRB to subject SIFIs to additional capital and quantitative limitations if they engage in activities prohibited for depository institutions by the Volcker Rule. The Volcker Rule, as proposed, contains an exemption for proprietary trading by insurance companies for their general account, but the final breadth and scope of this exemption cannot be predicted.

In addition, Dodd-Frank establishes a new framework for the regulation of over-the-counter (OTC) derivatives, which may significantly alter the cost, type and breadth of obligations associated with derivatives transactions, procedures for the pricing, documenting, monitoring and reporting of swaps, and the general conduct of hedging activities that are subject to its provisions. The scope of this new framework is continuing to be developed pursuant to ongoing rulemaking by both the Commodity Futures Trading Commission (CFTC) and the SEC, and its aggregate effect on us is difficult to fully ascertain at this time. Both the CFTC and the SEC have proposed additional rules requiring the posting of collateral for swaps and security-based swaps not subject to clearing, among other requirements. Proposed rules may increase the cost of conducting a hedging program or have other effects materially adverse to us.

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

See Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations Regulatory Environment for further discussion of these potential regulations.

ITEM 4 / MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 5 / OTHER INFORMATION

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

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

As of August 5, 2013, the closing of the ILFC Transaction has not occurred.

ITEM 6 / EXHIBITS

See accompanying Exhibit Index.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.

(Registrant)

/s/ DAVID L. HERZOG

David L. Herzog
Executive Vice President
Chief Financial Officer
Principal Financial Officer

/s/ DON W. CUMMINGS

Don W. Cummings
Vice President
Controller
Principal Accounting Officer

Dated: August 5, 2013

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EXHIBIT INDEX

10	Material Contracts	
	(1) Description of Non-Management Director Compensation*	Incorporated by reference to "Compensation of Directors" in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).
	(2) Description of Named Executive Officer Compensation*	Incorporated by reference to AIG's Current Report on Form 8-K filed with the SEC on April 4, 2013 (File No. 1-8787).
	(3) American International Group, Inc. 2013 Omnibus Incentive Plan*	Incorporated by reference to Appendix B in AIG's Definitive Proxy Statement on Schedule 14A, dated April 4, 2013 (File No. 1-8787).
	(4) American International Group, Inc. 2012 Executive Severance Plan (as amended)*	Incorporated by reference to Exhibit 10.6 to AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 1-8787).
	(5) Amendment No. 1 to the Share Purchase Agreement, dated as of May 10, 2013, among American International Group, Inc., AIG Capital Corporation and Jumbo Acquisition Limited	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on May 13, 2013 (File No. 1-8787).
	(6) Amendment No. 2 to the Share Purchase Agreement, dated as of June 15, 2013, among American International Group, Inc., AIG Capital Corporation and Jumbo Acquisition Limited	Incorporated by reference to Exhibit 2.1 to AIG's Current Report on Form 8-K filed with the SEC on June 17, 2013 (File No. 1-8787).
	(7) Unconditional Capital Maintenance Agreement, dated as of July 1, 2013, between AIG and United Guaranty Residential Insurance Company	Filed herewith.
11	Statement re: Computation of Per Share Earnings	Included in Note 13 to the Condensed Consolidated Financial Statements.
12	Computation of Ratios of Earnings to Fixed Charges	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications**	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012, (ii) the Condensed Consolidated Statements of Income for the three and six months ended June 30, 2013 and 2012, (iii) the Condensed Consolidated Statement of Equity for the six months ended June 30, 2013, (iv) the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013 and 2012, (v) the Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2013 and 2012 and (vi) the Notes to the Condensed Consolidated Financial	Filed herewith.

Statements.

* This exhibit is a management contract or compensatory plan or arrangement.

** This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.