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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013 **Commission File Number 1-8787**

American International Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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PART I FINANCIAL INFORMATION

ITEM 1. / FINANCIAL STATEMENTS

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

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

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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ITEM 1. / FINANCIAL STATEMENTS

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

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

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

Supplementary Disclosure of Condensed Consolidated Cash Flow Information

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

See accompanying Notes to Condensed Consolidated Financial Statements.

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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:

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.

ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Future Application of Accounting Standards

Certain Obligations Resulting from Joint and Several Liability Arrangements

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

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

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

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

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

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

Investment Company Guidance

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

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

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ITEM 1 / NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

Presentation of Unrecognized Tax Benefits

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

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

3. SEGMENT INFORMATION

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

AIG Property Casualty Investment Income Allocation

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

AIG Life and Retirement Operating Segment Change

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

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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:

	2013		2012	
Three Months Ended June 30, *(in millions)*	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

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

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ITEM 1 / NOTE 3. SEGMENT INFORMATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

4. HELD-FOR-SALE CLASSIFICATION AND DISCONTINUED OPERATIONS

International Lease Finance Corporation Sale

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

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

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

The following table summarizes income from discontinued operations:

(in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended 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

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

5. FAIR VALUE MEASUREMENTS

Fair Value Measurements on a Recurring Basis

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

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

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

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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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.

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Changes in Level 3 Recurring Fair Value Measurements

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

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

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

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

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

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

Transfers of Level 3 Assets and Liabilities

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

Transfers of Level 3 Assets

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

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

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

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

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

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

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

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

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.

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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Quantitative Information About Level 3 Fair Value Measurements

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

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

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

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

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

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

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

ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

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

Sensitivity to Changes in Unobservable Inputs

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

Corporate Debt

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

RMBS and Certain CDO/ABS

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

CMBS

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

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CDO/ABS Direct Investment book

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

Policyholder contract deposits

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

Derivative liabilities credit contracts

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

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

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

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

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

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

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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*:

	Gain (Loss) Three Months Ended June 30,		Gain (Loss) Six Months Ended June 30,	
(in millions)	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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ITEM 1 / NOTE 5. FAIR VALUE MEASUREMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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:

	June 30, 2013			December 31, 2012		
(in millions)	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:

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

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

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

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

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

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ITEM 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

6. INVESTMENTS

Securities Available for Sale

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

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

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

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

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

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ITEM 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Securities Available for Sale in a Loss Position

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

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

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

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ITEM 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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

Contractual Maturities of Securities Available for Sale

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

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

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

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

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

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

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

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

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ITEM 1 / NOTE 6. INVESTMENTS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Trading Securities

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

(in millions)		June 30, 2013 Fair Value	June 30, 2013 Percent of Total		December 31, 2012 Fair Value	December 31, 2012 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,

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

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

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Net Realized Capital Gains and Losses

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

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

Change in Unrealized Appreciation of Investments

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

(in millions)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Increase (decrease) in unrealized appreciation of investments:				
Fixed maturities	$			