AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
August 02, 2012

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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, 2012

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, 2012, there were 1,728,479,651 shares outstanding of the registrant's common stock.

American International Group, Inc.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

Consolidated Balance Sheet *(unaudited)*

(in millions, except for share data)	June 30, 2012	December 31, 2011
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2012 $244,790; 2011 $250,770)	**$ 263,014**	$ 263,981
Bond trading securities, at fair value	**30,919**	24,364
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2012 $1,733; 2011 $1,820)	**2,947**	3,624
Common and preferred stock trading, at fair value	**103**	125
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2012 $123; 2011 $107)	**19,387**	19,489
Flight equipment primarily under operating leases, net of accumulated depreciation	**35,095**	35,539
Other invested assets (portion measured at fair value: 2012 $16,415; 2011 $20,876)	**36,700**	40,744
Short-term investments (portion measured at fair value: 2012 $7,359; 2011 $5,913)	**24,365**	22,572
Total investments	**412,530**	410,438
Cash	**1,232**	1,474
Accrued investment income	**3,029**	3,108
Premiums and other receivables, net of allowance	**14,550**	14,721
Reinsurance assets, net of allowance	**27,539**	27,211
Current and deferred income taxes	**16,195**	17,802
Deferred policy acquisition costs	**8,565**	8,937
Derivative assets, at fair value	**3,753**	4,499
Other assets, including restricted cash of $3,253 in 2012 and $2,988 in 2011 (portion measured at fair value: 2012 $700; 2011 $0)	**13,725**	12,782
Separate account assets, at fair value	**54,265**	51,388
Total assets	**$ 555,383**	$ 552,360
Liabilities:		
Liability for unpaid claims and claims adjustment expense	**$ 87,871**	$ 91,145
Unearned premiums	**24,458**	23,465
Future policy benefits for life and accident and health insurance contracts	**34,935**	34,317
Policyholder contract deposits (portion measured at fair value: 2012 $1,188; 2011 $918)	**126,954**	126,898
Other policyholder funds	**6,231**	6,691
Derivative liabilities, at fair value	**4,138**	4,733
Other liabilities (portion measured at fair value: 2012 $1,588; 2011 $907)	**36,993**	27,554
Long-term debt (portion measured at fair value: 2012 $9,404; 2011 $10,766)	**73,897**	75,253
Separate account liabilities	**54,265**	51,388
Total liabilities	**449,742**	441,444
Commitments, contingencies and guarantees (see Note 9)		
Redeemable noncontrolling interests (see Note 1):		
Nonvoting, callable, junior preferred interests held by Department of the Treasury	**-**	8,427
Other	**112**	96
Total redeemable noncontrolling interests	**112**	8,523

AIG shareholders' equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2012 1,906,612,666 and 2011 1,906,568,099	**4,766**	4,766
Treasury stock, at cost; 2012 178,142,848; 2011 9,746,617 shares of common stock	**(5,926)**	(942)
Additional paid-in capital	**81,764**	81,787
Retained earnings	**16,314**	10,774
Accumulated other comprehensive income	**7,791**	5,153
Total AIG shareholders' equity	**104,709**	101,538
Non-redeemable noncontrolling interests	**820**	855
Total equity	**105,529**	102,393
Total liabilities and equity	**$ 555,383**	$ 552,360

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

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Consolidated Statement of Operations *(unaudited)*

(dollars in millions, except per share data)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues:				
Premiums	**$ 9,619**	$ 9,898	**$ 19,080**	$ 19,380
Policy fees	**674**	682	**1,365**	1,366
Net investment income	**4,481**	4,464	**11,586**	10,033
Net realized capital gains (losses):				
Total other-than-temporary impairments on available for sale securities	**(99)**	(181)	**(267)**	(399)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income	**(51)**	56	**(336)**	59
Net other-than-temporary impairments on available for sale securities recognized in net income	**(150)**	(125)	**(603)**	(340)
Other realized capital gains (losses)	**547**	200	**750**	(320)
Total net realized capital gains (losses)	**397**	75	**147**	(660)
Aircraft leasing revenue	**1,123**	1,134	**2,279**	2,290
Other income	**829**	427	**1,109**	1,710
Total revenues	**17,123**	16,680	**35,566**	34,119
Benefits, claims and expenses:				
Policyholder benefits and claims incurred	**7,769**	8,086	**14,871**	17,045
Interest credited to policyholder account balances	**1,064**	1,114	**2,133**	2,220
Amortization of deferred acquisition costs	**1,472**	1,322	**2,819**	2,553
Other acquisition and insurance expenses	**2,264**	2,129	**4,522**	4,097
Interest expense	**954**	1,001	**1,907**	2,085
Aircraft leasing expenses	**646**	578	**1,271**	1,207
Net loss on extinguishment of debt	**11**	79	**32**	3,392
Other expenses	**1,192**	577	**1,676**	1,036
Total benefits, claims and expenses	**15,372**	14,886	**29,231**	33,635
Income from continuing operations before income tax expense (benefit)	**1,751**	1,794	**6,335**	484
Income tax expense (benefit)	**(593)**	(296)	**555**	(522)
Income from continuing operations	**2,344**	2,090	**5,780**	1,006
Income (loss) from discontinued operations, net of income tax expense (benefit)	**(5)**	(37)	**8**	2,548
Net income	**2,339**	2,053	**5,788**	3,554
Less:				
Net income from continuing operations attributable to noncontrolling interests:				
Nonvoting, callable, junior and senior preferred interests	**-**	141	**208**	393
Other	**7**	64	**40**	9
Total net income from continuing operations attributable to noncontrolling interests	**7**	205	**248**	402
	-	12	**-**	19

Net income from discontinued operations attributable to noncontrolling interests								
Total net income attributable to noncontrolling interests		**7**		217		**248**		421
Net income attributable to AIG	**$**	**2,332**	$	1,836	**$**	**5,540**	$	3,133
Net income attributable to AIG common shareholders	**$**	**2,332**	$	1,836	**$**	**5,540**	$	2,321
Income per common share attributable to AIG common shareholders:								
Basic:								
Income (loss) from continuing operations	**$**	**1.33**	$	1.03	**$**	**3.05**	$	(0.12)
Income (loss) from discontinued operations	**$**	**-**	$	(0.03)	**$**	**-**	$	1.49
Diluted:								
Income (loss) from continuing operations	**$**	**1.33**	$	1.03	**$**	**3.05**	$	(0.12)
Income (loss) from discontinued operations	**$**	**-**	$	(0.03)	**$**	**-**	$	1.49
Weighted average shares outstanding:								
Basic		**1,756,689,067**		1,836,713,069		**1,816,331,019**		1,698,001,301
Diluted		**1,756,714,475**		1,836,771,513		**1,816,358,625**		1,698,001,301

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

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American International Group, Inc.

Consolidated Statement of Comprehensive Income *(unaudited)*

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	**$ 2,339**	$ 2,053	**$ 5,788**	$ 3,554
Other comprehensive income, net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**17**	(107)	**630**	289
Change in unrealized appreciation of all other investments	**1,305**	1,861	**2,286**	1,054
Change in foreign currency translation adjustments	**(427)**	288	**(336)**	(229)
Change in net derivative gains arising from cash flow hedging activities	**1**	58	**23**	71
Change in retirement plan liabilities adjustment	**14**	14	**32**	149
Other comprehensive income	**910**	2,114	**2,635**	1,334
Comprehensive income	**3,249**	4,167	**8,423**	4,888
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	**-**	141	**208**	393
Comprehensive income (loss) attributable to other noncontrolling interests	**(1)**	(7)	**37**	(19)
Total comprehensive income (loss) attributable to noncontrolling interests	**(1)**	134	**245**	374
Comprehensive income attributable to AIG	**$ 3,250**	$ 4,033	**$ 8,178**	$ 4,514

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

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Consolidated Statement of Cash Flows *(unaudited)*

Six Months Ended June 30, ***(in millions)***	**2012**	**2011**
Cash flows from operating activities:		
Net income	**$ 5,788**	$ 3,554
Income from discontinued operations	**(8)**	(2,548)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net gains on sales of securities available for sale and other assets	**(1,817)**	(539)
Net losses on extinguishment of debt	**32**	3,392
Unrealized gains in earnings net	**(4,088)**	(2,473)
Equity in income from equity method investments, net of dividends or distributions	**(395)**	(795)
Depreciation and other amortization	**3,574**	3,585
Impairments of assets	**1,085**	889
Changes in operating assets and liabilities:		
General and life insurance reserves	**(639)**	5,604
Premiums and other receivables and payables net	**495**	49
Reinsurance assets and funds held under reinsurance treaties	**(365)**	(5,559)
Capitalization of deferred policy acquisition costs	**(2,863)**	(2,661)
Current and deferred income taxes net	**349**	(1,068)
Payment of FRBNY Credit Facility accrued compounded interest and fees	**-**	(6,363)
Other, net	**484**	(1,279)
Total adjustments	**(4,148)**	(7,218)
Net cash provided by (used in) operating activities continuing operations	**1,632**	(6,212)
Net cash provided by operating activities discontinued operations	**-**	2,675
Net cash provided by (used in) operating activities	**1,632**	(3,537)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of available for sale and hybrid investments	**22,028**	23,668
Maturities of fixed maturity securities available for sale and hybrid investments	**10,805**	9,846
Sales of trading securities	**4,968**	7,621
Sales or distributions of other invested assets (including flight equipment)	**7,790**	4,961
Sales of divested businesses, net	**-**	587
Principal payments received on and sales of mortgage and other loans receivable	**1,384**	1,706
Purchases of available for sale and hybrid investments	**(28,993)**	(48,485)
Purchases of trading securities	**(2,394)**	(688)
Purchases of other invested assets (including flight equipment)	**(2,959)**	(3,260)
Mortgage and other loans receivable issued and purchased	**(1,402)**	(1,026)
Net change in restricted cash	**(265)**	26,480
Net change in short-term investments	**(211)**	12,967
Net change in derivative assets and liabilities	**278**	390
Other, net	**(158)**	33
Net cash provided by investing activities continuing operations	**10,871**	34,800
Net cash provided by investing activities discontinued operations	**-**	3,021
Net cash provided by investing activities	**10,871**	37,821
Cash flows from financing activities:		
Proceeds from (payments for)		

Policyholder contract deposits	**6,809**	9,530
Policyholder contract withdrawals	**(7,077)**	(7,769)
FRBNY credit facility repayments	**-**	(14,622)
Issuance of long-term debt	**6,776**	3,021
Repayments of long-term debt	**(8,155)**	(9,968)
Proceeds from drawdown on the Department of the Treasury Commitment	**-**	20,292
Repayment of Department of the Treasury SPV Preferred Interests	**(8,636)**	(9,146)
Repayment of FRBNY SPV Preferred Interests	**-**	(26,432)
Issuance of Common Stock	**-**	4,332
Purchase of Common Stock	**(5,000)**	-
Acquisition of noncontrolling interest	**(100)**	(647)
Other, net	**2,662**	(373)
Net cash used in financing activities continuing operations	**(12,721)**	(31,782)
Net cash used in financing activities discontinued operations	**-**	(1,932)
Net cash used in financing activities	**(12,721)**	(33,714)
Effect of exchange rate changes on cash	**(24)**	29
Net increase (decrease) in cash	**(242)**	599
Cash at beginning of period	**1,474**	1,558
Change in cash of businesses held for sale	**-**	433
Cash at end of period	**$ 1,232**	$ 2,590

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

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Consolidated Statement of Equity *(unaudited)*

(in millions)	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total AIG Share-holders' Equity	Non redeemable non-controlling Interests	Total Equity
Six Months Ended June 30, 2012									
Balance, beginning of year	**$ -**	**$ 4,766**	**$ (942)**	**$ 81,787**	**$ 10,774**	**$ 5,153**	**$ 101,538**	**$ 855**	**$ 102,393**
Common stock issued under stock plans			**16**	**(15)**	**-**	**-**	**1**	**-**	**1**
Purchase of common stock	**-**	**-**	**(5,000)**	**-**	**-**	**-**	**(5,000)**	**-**	**(5,000)**
Net income attributable to AIG or other noncontrolling interests*	**-**	**-**	**-**	**-**	**5,540**	**-**	**5,540**	**43**	**5,583**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**2,638**	**2,638**	**(3)**	**2,635**
Deferred income taxes	**-**	**-**	**-**	**(8)**	**-**	**-**	**(8)**	**-**	**(8)**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**46**	**46**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(100)**	**(100)**
Other	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21)**	**(21)**
Balance, end of period	**$ -**	**$ 4,766**	**$ (5,926)**	**$ 81,764**	**$ 16,314**	**$ 7,791**	**$ 104,709**	**$ 820**	**$ 105,529**
Six Months Ended June 30, 2011									
Balance, beginning of year	$ 71,983	$ 368	$ (873)	$ 9,683	$ (3,466)	$ 7,624	$ 85,319	$ 27,920	$ 113,239
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	(6,382)	(81)	(6,463)	-	(6,463)
Series F drawdown	20,292	-	-	-	-	-	20,292	-	20,292
Repurchase of SPV preferred interests in connection with Recapitalization	-	-	-	-	-	-	-	(26,432)	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization	(92,275)	4,138	-	67,460	-	-	(20,677)	-	(20,677)
Common stock issued	-	250	-	2,636	-	-	2,886	-	2,886
Settlement of equity unit stock purchase contract	-	6	-	1,440	-	-	1,446	-	1,446
Net income attributable to AIG or other noncontrolling interests*	-	-	-	-	3,133	-	3,133	22	3,155
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-	-	-	-	-	74	74
Other comprehensive income (loss)	-	-	-	-	-	1,381	1,381	(47)	1,334
Acquisition of noncontrolling interest	-	-	-	(157)	-	88	(69)	(468)	(537)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(6)	(6)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	42	42
	-	-	-	-	-	-	-	(116)	(116)

Distributions to noncontrolling interests									
Other	-	(1)	1	(6)	(1)	-	(7)	(41)	(48)
Balance, end of period	$ -	$ 4,761	$ (872)	$ 81,056	$ (6,716)	$ 9,012	$ 87,241	$ 948	$ 88,189

*

Excludes gains of $205 million and $325 million for the six months ended June 30, 2012 and 2011, respectively, attributable to redeemable noncontrolling interests. See Note 10.

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. BASIS OF PRESENTATION AND SIGNIFICANT EVENTS

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 the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2011, as amended by Amendment No. 1 and Amendment No. 2 on Form 10-K/A filed on February 27, 2012 and March 30, 2012, respectively, and as updated by AIG's Current Report on Form 8-K filed on May 4, 2012 (collectively, the 2011 Annual Report). The condensed consolidated financial information as of December 31, 2011 included herein has been derived from audited consolidated financial statements in the 2011 Annual Report not included herein.

Certain of AIG's foreign subsidiaries included in the consolidated financial statements report on different fiscal-period bases. The effect on AIG's 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 financial statements has been recorded.

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments 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. AIG evaluated the need to recognize or disclose events that occurred subsequent to June 30, 2012 and prior to the issuance of these unaudited condensed consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

REVISIONS TO PRIOR YEAR FINANCIAL STATEMENTS

During the quarter ended March 31, 2012, AIG retroactively adopted a standard that changed its method of accounting for costs associated with acquiring or renewing insurance contracts. See Note 2 herein for additional details, including a summary of revisions to prior year financial statements.

To align the presentation of Changes in fair value of derivatives with changes in the administration of AIG's derivatives portfolio, changes were made to the presentation within the Consolidated Statement of Operations and Consolidated Statement of Cash Flows for activity where Global Capital Markets executes transactions with third parties on behalf of AIG subsidiaries. Specifically, derivative activity where AIGFP is an intermediary for AIG subsidiaries, which historically has been reported in Other income, has been reclassified to Net realized capital gains (losses). Additionally, certain other items have been reclassified within the Consolidated Statement of Operations in the current period. Prior period amounts were reclassified to conform to the current period presentation.

USE OF ESTIMATES

The preparation of financial statements requires the application of accounting policies that often involve a significant degree of judgment. AIG considers its accounting policies that are most dependent on the application of estimates and assumptions to be those relating to items considered by management in the determination of:

- estimates with respect to income taxes, including the recoverability of deferred tax assets and the predictability of future tax planning strategies and operating profitability of the character necessary for their realization;
- recoverability of assets, including deferred policy acquisition costs (DAC), flight equipment, and reinsurance;
- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;

estimated gross profits for investment-oriented products;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

- impairment charges, including other-than-temporary impairments on financial instruments and goodwill impairments;
- liabilities for legal contingencies; and
- fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS).

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, AIG's consolidated financial condition, results of operations and cash flows could be materially affected.

SIGNIFICANT EVENTS

During the six months ended June 30, 2012, AIG executed significant transactions in the debt and equity capital markets as described below.

Common Stock Offerings by the Department of the Treasury and AIG Purchases of Shares

The United States Department of the Treasury (Department of the Treasury), as selling shareholder, completed registered public offerings of AIG common stock, par value $2.50 per share (AIG Common Stock) on March 13, 2012 (the March Offering) and May 10, 2012 (the May Offering).

In the March Offering, the Department of the Treasury sold approximately 207 million shares of AIG Common Stock for aggregate proceeds of approximately $6.0 billion. AIG purchased approximately 103 million shares of AIG Common Stock in the March Offering at the initial public offering price of $29.00 per share for an aggregate purchase amount of approximately $3.0 billion.

In the May Offering, the Department of the Treasury sold approximately 189 million shares of AIG Common Stock for aggregate proceeds of approximately $5.7 billion. AIG purchased approximately 66 million shares of AIG Common Stock in the May Offering at the initial public offering price of $30.50 per share for an aggregate purchase amount of approximately $2.0 billion.

As a result of the Department of the Treasury's sale of AIG Common Stock and AIG's purchase of shares in these offerings, ownership by the Department of the Treasury was reduced from approximately 77 percent to approximately 61 percent of the AIG Common Stock outstanding after the completion of the May Offering.

Sale of AIA Shares

On March 7, 2012, AIG sold approximately 1.72 billion ordinary shares of AIA Group Limited (AIA) for gross proceeds of approximately $6.0 billion (the AIA Sale). As a result of the AIA Sale, AIG's retained interest in AIA decreased from approximately 33 percent to approximately 19 percent. At June 30, 2012 and December 31, 2011, the fair value of AIG's retained interest in AIA was approximately $7.7 billion and $12.4 billion, respectively.

Senior Notes Offerings

AIG completed the following registered notes offerings:

- On March 22, 2012, $750 million principal amount of 3.000% Notes Due 2015 and $1.25 billion principal amount of 3.800% Notes Due 2017 for the Matched Investment Program (MIP).

On May 24, 2012, $750 million principal amount of 4.875% Notes Due 2022, and on June 29, 2012, an additional $750 million principal amount of such 4.875% Notes Due 2022.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

ILFC Debt Offerings

In the first six months of 2012, International Lease Finance Corporation (ILFC) raised approximately $3.2 billion through a combination of secured and unsecured financings.

Pay Down of Department of the Treasury's AIA SPV Preferred Interests in Full

On March 7, 2012, AIG entered into an agreement with the Department of the Treasury to amend various agreements (the Amendment), which enabled the special purpose vehicle that held AIG's remaining shares in AIA (the AIA SPV) to retain and distribute to AIG the net proceeds in excess of $5.6 billion received by the AIA SPV from the AIA Sale. In addition, the liens created by the agreements on (i) the equity interests in ILFC, (ii) the ordinary shares of AIA held by the AIA SPV subsequent to the closing of the AIA Sale and (iii) the common equity interests in the AIA SPV were released and such interests and AIA ordinary shares no longer constituted collateral securing the repayment of the liquidation preference of the Department of the Treasury's preferred interests in the AIA SPV (the AIA SPV Preferred Interests). The Amendment also required the AIA SPV and AM Holdings LLC (the ALICO SPV) to redeem their preferred participating return rights held in such SPVs by the Department of the Treasury before the release of the collateral. AIG contributed a portion of the net proceeds received by AIG in respect of its interest in Maiden Lane II LLC (ML II) to redeem these residual rights.

On March 21, 2012, AIG entered into an agreement with the Department of the Treasury, pursuant to which the AIA SPV paid down in full the remaining liquidation preference of the AIA SPV Preferred Interests. As a result of the payment, the remaining liens on AIG assets supporting the paydown of these interests were released.

SUPPLEMENTARY DISCLOSURE OF CONSOLIDATED CASH FLOW INFORMATION

Six Months Ended June 30, ***(in millions)***	**2012**	**2011**
Cash paid during the period for:		
Interest*	**$ 2,088**	$ 7,081
Taxes	**$ 206**	$ 547
Non-cash financing/investing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 2,186**	$ 2,434

* *2011 includes payment of accrued compounded interest of $4.7 billion under the Credit Agreement, dated as of September 22, 2008, as amended (the FRBNY Credit Facility), before the facility was terminated on January 14, 2011 in connection with the series of integrated transactions to recapitalize AIG (the Recapitalization) with the Department of the Treasury, the Federal Reserve Bank of New York and the AIG Credit Facility Trust, including the repayment of all amounts owed under the FRBNY Credit Facility.*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RECENT ACCOUNTING STANDARDS

Future Application of Accounting Standards

In July 2012, the Financial Accounting Standards Board (FASB) issued an accounting standard that allows a company the option to first assess qualitatively whether it is more likely than not that an indefinite-lived intangible asset is impaired, therefore necessitating that it perform a quantitative impairment test. A company is not required to calculate the fair value of an indefinite-lived intangible asset and perform the quantitative impairment test unless the company determines it is more likely than not the asset is impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. A company can choose to early adopt the standard. AIG does not expect adoption of the standard to have a material effect on its consolidated financial condition, results of operations or cash flows.

Accounting Standards Adopted During 2012

AIG adopted the following accounting standards on January 1, 2012:

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred policy acquisition costs. AIG adopted the standard retrospectively on January 1, 2012.

Policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal insurance contracts. AIG defers incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such costs generally include agent or broker commissions and bonuses, premium taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. AIG partially defers costs, including certain commissions, when it does not believe the entire cost is directly related to the acquisition or renewal of insurance contracts.

AIG also defers a portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling. The amounts deferred are derived based on successful efforts for each distribution channel and/or cost center from which the cost originates.

Advertising costs related to the issuance of insurance contracts that meet the direct-advertising criteria are deferred and amortized as part of deferred policy acquisition costs.

The method AIG uses to amortize deferred policy acquisition costs for either short- or long-duration insurance contracts did not change as a result of the adoption of the standard.

The adoption of the standard resulted in a reduction to beginning of period retained earnings for the earliest period presented and a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts. Accordingly, AIG revised its historical financial statements and accompanying notes to the consolidated financial statements for the changes in deferred policy acquisition costs and associated changes in acquisition expenses and income taxes for affected entities and segments, including divested entities presented in continuing and discontinued operations.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The following tables present amounts previously reported in 2011, the effect of the change due to the retrospective adoption of the standard, and the adjusted amounts that are reflected in AIG's consolidated financial statements.

December 31, 2011 *(in millions)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Balance Sheet:			
Current and deferred income taxes	$ 16,084	$ 1,718	$ 17,802
Deferred policy acquisition costs	14,026	(5,089)	8,937
Other assets	12,824	(42)	12,782
Total assets	555,773	(3,413)	552,360
Retained earnings	14,332	(3,558)	10,774
Accumulated other comprehensive income	5,008	145	5,153
Total AIG shareholders' equity	104,951	(3,413)	101,538

Three Months Ended June 30, 2011 *(dollars in millions, except per share data)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Statement of Operations:			
Total net realized capital gains[(a)]	$ 71	$ 4	$ 75
Total revenues	16,676	4	16,680
Interest credited to policyholder account balances	1,110	4	1,114
Amortization of deferred acquisition costs	1,786	(464)	1,322
Other acquisition and other insurance expenses	1,653	476	2,129
Total benefits, claims and expenses	14,870	16	14,886
Income (loss) from continuing operations before income tax benefit	1,806	(12)	1,794
Income tax benefit[(b)]	(288)	(8)	(296)
Income (loss) from continuing operations	2,094	(4)	2,090
Income (loss) from discontinued operations, net of income tax expense[(c)]	(37)	-	(37)
Net income	2,057	(4)	2,053
Net income attributable to AIG	1,840	(4)	1,836
Net income (loss) attributable to AIG common shareholders	1,840	(4)	1,836

Income (loss) per share attributable to AIG common shareholders:						
Basic:						
Income (loss) from continuing operations	$	1.03	$	-	$	1.03
Income (loss) from discontinued operations	$	(0.03)	$	-	$	(0.03)
Diluted						
Income (loss) from continuing operations	$	1.03	$	-	$	1.03
Income (loss) from discontinued operations	$	(0.03)	$	-	$	(0.03)

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Six Months Ended June 30, 2011 *(dollars in millions, except per share data)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Statement of Operations:			
Total net realized capital losses[(a)]	$ (667)	$ 7	$ (660)
Total revenues	34,112	7	34,119
Interest credited to policyholder account balances	2,215	5	2,220
Amortization of deferred acquisition costs	3,502	(949)	2,553
Other acquisition and other insurance expenses	3,204	893	4,097
Total benefits, claims and expenses	33,686	(51)	33,635
Income (loss) from continuing operations before income tax benefit	426	58	484
Income tax benefit[(b)]	(488)	(34)	(522)
Income (loss) from continuing operations	914	92	1,006
Income (loss) from discontinued operations, net of income tax expense[(c)]	1,616	932	2,548
Net income	2,530	1,024	3,554
Net income attributable to AIG	2,109	1,024	3,133
Net income (loss) attributable to AIG common shareholders	1,297	1,024	2,321
Income (loss) per share attributable to AIG common shareholders:			
Basic:			
Income (loss) from continuing operations	$ (0.18)	$ 0.06	$ (0.12)
Income from discontinued operations	$ 0.94	$ 0.55	$ 1.49
Diluted			
Income (loss) from continuing operations	$ (0.18)	$ 0.06	$ (0.12)
Income from discontinued operations	$ 0.94	$ 0.55	$ 1.49

(a) *Includes $5 million and $(82) million for the three and six months ended June 30, 2011, respectively, attributable to the effect of the reclassification of certain derivative activity discussed in Note 1 herein.*

(b) *Includes a change in the deferred tax asset valuation allowance for the period.*

(c) *Represents the results of Nan Shan Life Insurance Company, Ltd. (Nan Shan) and the results of AIG Star Life Insurance Co. Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison) through the date of their disposition, and the gain on the sale of AIG Star and AIG Edison, which were sold in the first quarter of 2011.*

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Adoption of the standard did not affect the previously reported totals for net cash flows provided by (used in) operating, investing, or financing activities, but did affect the following components of net cash flows provided by (used in) operating activities.

Six Months Ended June 30, 2011 *(in millions)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Cash flows from operating activities:			
Net income	$ 2,530	$ 1,024	$ 3,554
Income from discontinued operations	(1,616)	(932)	(2,548)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Noncash revenues, expenses, gains and losses included in income (loss):			
Unrealized gains in earnings net*	(2,466)	(7)	(2,473)
Depreciation and other amortization	4,529	(944)	3,585
Changes in operating assets and liabilities:			
Capitalization of deferred policy acquisition costs	(3,554)	893	(2,661)
Current and deferred income taxes net	(1,034)	(34)	(1,068)
Total adjustments	(7,126)	(92)	(7,218)

* *Includes $73 million for the six months ended June 30, 2011 attributable to the effect of the reclassification of certain derivative activity discussed in Note 1 herein.*

For short-duration insurance contracts, starting in 2012, AIG elected to include anticipated investment income in its determination of whether the deferred policy acquisition costs are recoverable. AIG believes the inclusion of anticipated investment income in the recoverability analysis is a preferable accounting policy because it includes in the recoverability analysis the fact that there is a timing difference between when the premiums are collected and in turn invested and when the losses and related expenses are paid. This is considered a change in accounting principle that required retrospective application to all periods presented. Because AIG historically has not recorded any premium deficiency on its short-duration insurance contracts even without the inclusion of anticipated investment income, there were no changes to the historical financial statements for the change in accounting principle.

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued an accounting standard that amends the criteria used to determine effective control for repurchase agreements and other similar arrangements such as securities lending transactions. The standard modifies the criteria for determining when these transactions would be accounted for as secured borrowings (i.e., financings) instead of sales of the securities.

The standard removes from the assessment of effective control the requirement that the transferor have the ability to repurchase or redeem the financial assets on substantially agreed terms, even in the event of default by the transferee. The removal of this requirement makes the level of collateral received by the transferor in a repurchase agreement or similar arrangement irrelevant in determining whether the transaction should be accounted for as a sale. Consequently, more repurchase agreements, securities lending transactions and similar arrangements will be accounted for as secured borrowings.

The guidance in the standard must be applied prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012. Under this standard, $204 million in repurchase agreements (related to securities with a fair value of $259 million) continued to be accounted for as sales as of June 30, 2012. Any modifications to these transactions that occur subsequent to adoption will result in an assessment of whether they should be accounted for as secured borrowings under the standard. As of June 30, 2012, there were no such modifications subsequent to the adoption of the standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Common Fair Value Measurements and Disclosure Requirements in GAAP and IFRS

In May 2011, the FASB issued an accounting standard that amended certain aspects of the fair value measurement guidance in GAAP, primarily to achieve the FASB's objective of a converged definition of fair value and substantially converged measurement and disclosure guidance with International Financial Reporting Standards (IFRS). The measurement and disclosure requirements under GAAP and IFRS are now generally consistent, with certain exceptions including the accounting for day one gains and losses, measuring the fair value of alternative investments using net asset value and certain disclosure requirements.

The standard's fair value measurement and disclosure guidance applies to all companies that measure assets, liabilities, or instruments classified in shareholders' equity at fair value or provide fair value disclosures for items not recorded at fair value. The guidance clarifies existing guidance on the application of fair value measurements, changes certain principles or requirements for measuring fair value, and requires significant additional disclosures for Level 3 valuation inputs. The new disclosure requirements were applied prospectively. The standard became effective for AIG beginning on January 1, 2012. The standard did not have any effect on AIG's consolidated financial condition, results of operations or cash flows. See Note 4 herein.

Presentation of Comprehensive Income

In June 2011, the FASB issued an accounting standard that requires the presentation of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components, followed consecutively by a second statement that presents total other comprehensive income and its components. The standard became effective beginning January 1, 2012 with retrospective application required. The standard did not have any effect on AIG's consolidated financial condition, results of operations or cash flows.

Testing Goodwill for Impairment

In September 2011, the FASB issued an accounting standard that amends the approach to testing goodwill for impairment. The standard simplifies how entities test goodwill for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative, two-step goodwill impairment test. The standard became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the standard did not affect AIG's consolidated financial condition, results of operations or cash flows.

3. SEGMENT INFORMATION

AIG reports the results of its operations through three reportable segments: Chartis, SunAmerica Financial Group (SunAmerica) and Aircraft Leasing. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations, because AIG believes this provides more meaningful information on how its operations are performing.

Effective during the first quarter of 2012, in order to align financial reporting with the manner in which AIG's chief operating decision makers review the Chartis businesses to assess performance and make decisions about resources to be allocated, certain products previously reported in Commercial Insurance were reclassified to Consumer Insurance. These revisions did not affect the total Chartis reportable segment results previously reported.

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

	Reportable Segment					Consolidation	
(in millions)	Chartis	SunAmerica	Aircraft Leasing*	Other Operations	Total	and Eliminations	Consolidated
Three Months Ended June 30, 2012							
Total revenues	**$ 10,020**	**$ 4,213**	**$ 1,121**	**$ 1,869**	**$ 17,223**	**$ (100)**	**$ 17,123**
Pre-tax income (loss)	**961**	**777**	**86**	**(116)**	**1,708**	**43**	**1,751**
Three Months Ended June 30, 2011							
Total revenues	$ 10,218	$ 3,896	$ 1,119	$ 1,565	$ 16,798	$ (118)	$ 16,680
Pre-tax income	826	766	87	87	1,766	28	1,794
Six Months Ended June 30, 2012							
Total revenues	**$ 19,818**	**$ 7,909**	**$ 2,275**	**$ 5,872**	**$ 35,874**	**$ (308)**	**$ 35,566**
Pre-tax income (loss)	**1,871**	**1,639**	**206**	**2,620**	**6,336**	**(1)**	**6,335**
Six Months Ended June 30, 2011							
Total revenues	$ 20,098	$ 7,735	$ 2,260	$ 4,297	$ 34,390	$ (271)	$ 34,119
Pre-tax income (loss)	452	1,733	207	(1,910)	482	2	484

* *AIG's Aircraft Leasing operations consist of a single operating segment.*

The following table presents Chartis operations by operating segment:

(in millions)	Commercial Insurance	Consumer Insurance	Other	Total Chartis
Three Months Ended June 30, 2012				
Total revenues	**$ 6,087**	**$ 3,564**	**$ 369**	**$ 10,020**
Pre-tax income	**594**	**192**	**175**	**961**
Three Months Ended June 30, 2011				
Total revenues	$ 6,437	$ 3,482	$ 299	$ 10,218
Pre-tax income	629	59	138	826
Six Months Ended June 30, 2012				
Total revenues	**$ 12,016**	**$ 7,176**	**$ 626**	**$ 19,818**
Pre-tax income	**1,159**	**426**	**286**	**1,871**
Six Months Ended June 30, 2011				
Total revenues	$ 12,503	$ 6,916	$ 679	$ 20,098
Pre-tax income (loss)	245	(196)	403	452

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The following table presents SunAmerica operations by operating segment:

(in millions)	Domestic Life Insurance	Domestic Retirement Services	Total SunAmerica
Three Months Ended June 30, 2012			
Total revenues	**$ 2,484**	**$ 1,729**	**$ 4,213**
Pre-tax income	**673**	**104**	**777**
Three Months Ended June 30, 2011			
Total revenues	$ 2,146	$ 1,750	$ 3,896
Pre-tax income	369	397	766
Six Months Ended June 30, 2012			
Total revenues	**$ 4,643**	**$ 3,266**	**$ 7,909**
Pre-tax income	**1,161**	**478**	**1,639**
Six Months Ended June 30, 2011			
Total revenues	$ 4,108	$ 3,627	$ 7,735
Pre-tax income	702	1,031	1,733

The following table presents the components of AIG's Other operations:

(in millions)	Mortgage Guaranty	Global Capital Markets	Direct Investment Book	Retained Interests	Corporate & Other	Consolidation and Eliminations	Total Other Operations
Three Months Ended June 30, 2012							
Total revenues	**$ 224**	**$ 10**	**$ 584**	**$ 813**	**$ 251**	**$ (13)**	**$ 1,869**
Pre-tax income (loss)	**48**	**(25)**	**485**	**813**	**(1,435)**	**(2)**	**(116)**
Three Months Ended June 30, 2011							
Total revenues	$ 232	$ (105)	$ 136	$ 854	$ 458	$ (10)	$ 1,565
Pre-tax income (loss)	6	(169)	73	854	(668)	(9)	87
Six Months Ended June 30, 2012							
Total revenues	**$ 424**	**$ 170**	**$ 928**	**$ 3,860**	**$ 513**	**$ (23)**	**$ 5,872**
Pre-tax income (loss)	**56**	**63**	**733**	**3,860**	**(2,093)**	**1**	**2,620**
Six Months Ended June 30, 2011							
Total revenues	$ 470	$ 281	$ 599	$ 2,503	$ 469	$ (25)	$ 4,297
Pre-tax income (loss)	14	121	483	2,503	(5,015)	(16)	(1,910)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

4. FAIR VALUE MEASUREMENTS

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

AIG carries certain of its financial instruments at fair value. AIG defines 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. See Note 6 to the Consolidated Financial Statements in the 2011 Annual Report for a discussion of AIG's accounting policies and procedures regarding fair value measurements related to the following information.

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in accordance with a fair value hierarchy established in GAAP. The hierarchy consists of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities.

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, AIG must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability.

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American International Group, Inc.

NOTES TO 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 levels of the inputs used:

June 30, 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	$ 19	$ 3,998	$ -	$ -	$ -	$ 4,017
Obligations of states, municipalities and political subdivisions	-	36,241	1,013	-	-	37,254
Non-U.S. governments	833	24,535	13	-	-	25,381
Corporate debt	-	145,022	1,306	-	-	146,328
RMBS	-	23,170	10,488	-	-	33,658
CMBS	-	4,148	4,643	-	-	8,791
CDO/ABS	-	2,511	5,074	-	-	7,585
Total bonds available for sale	852	239,625	22,537	-	-	263,014
Bond trading securities:						
U.S. government and government sponsored entities	800	6,792	-	-	-	7,592
Obligations of states, municipalities and political subdivisions	-	236	-	-	-	236
Non-U.S. governments	-	34	-	-	-	34
Corporate debt	-	1,057	3	-	-	1,060
RMBS	-	1,158	290	-	-	1,448
CMBS	-	1,676	457	-	-	2,133
CDO/ABS	-	3,769	14,647	-	-	18,416
Total bond trading securities	800	14,722	15,397	-	-	30,919
Equity securities available for sale:						
Common stock	2,608	2	41	-	-	2,651
Preferred stock	-	46	139	-	-	185
Mutual funds	73	38	-	-	-	111
Total equity securities available for sale	2,681	86	180	-	-	2,947
Equity securities trading	23	80	-	-	-	103
Mortgage and other loans receivable	-	122	1	-	-	123
Other invested assets[(c)]	7,747	1,619	7,049	-	-	16,415
Derivative assets:						
Interest rate contracts	12	6,649	1,006	-	-	7,667
Foreign exchange contracts	-	53	-	-	-	53
Equity contracts	106	117	38	-	-	261
Commodity contracts	-	181	2	-	-	183
Credit contracts	-	-	64	-	-	64
Other contracts	-	164	68	-	-	232
Counterparty netting and cash collateral	-	-	-	(3,716)	(991)	(4,707)
Total derivative assets	118	7,164	1,178	(3,716)	(991)	3,753

Short-term investments(d)		371		6,988		-		-		-	7,359
Separate account assets		51,412		2,853		-		-		-	54,265
Other assets		-		700		-		-		-	700
Total	$	64,004	$	273,959	$	46,342	$	(3,716)	$	(991)	$ 379,598
Liabilities:											
Policyholder contract deposits	$	-	$	-	$	1,188	$	-	$	-	$ 1,188
Derivative liabilities:											
Interest rate contracts		-		6,663		245		-		-	6,908
Foreign exchange contracts		-		171		-		-		-	171
Equity contracts		2		234		10		-		-	246
Commodity contracts		-		185		-		-		-	185
Credit contracts(e)		-		5		2,651		-		-	2,656
Other contracts		-		65		222		-		-	287
Counterparty netting and cash collateral		-		-		-		(3,716)		(2,599)	(6,315)
Total derivative liabilities		2		7,323		3,128		(3,716)		(2,599)	4,138
Other long-term debt(f)		-		8,997		407		-		-	9,404
Other liabilities(g)		24		1,564		-		-		-	1,588
Total	$	26	$	17,884	$	4,723	$	(3,716)	$	(2,599)	$ 16,318

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

December 31, 2011 *(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	$ 174	$ 5,904	$ -	$ -	$ -	$ 6,078
Obligations of states, municipalities and political subdivisions	-	36,538	960	-	-	37,498
Non-U.S. governments	259	25,467	9	-	-	25,735
Corporate debt	-	142,883	1,935	-	-	144,818
RMBS	-	23,727	10,877	-	-	34,604
CMBS	-	3,991	3,955	-	-	7,946
CDO/ABS	-	3,082	4,220	-	-	7,302
Total bonds available for sale	433	241,592	21,956	-	-	263,981
Bond trading securities:						
U.S. government and government sponsored entities	100	7,404	-	-	-	7,504
Obligations of states, municipalities and political subdivisions	-	257	-	-	-	257
Non-U.S. governments	-	35	-	-	-	35
Corporate debt	-	809	7	-	-	816
RMBS	-	1,345	303	-	-	1,648
CMBS	-	1,283	554	-	-	1,837
CDO/ABS	-	3,835	8,432	-	-	12,267
Total bond trading securities	100	14,968	9,296	-	-	24,364
Equity securities available for sale:						
Common stock	3,294	70	57	-	-	3,421
Preferred stock	-	44	99	-	-	143
Mutual funds	55	5	-	-	-	60
Total equity securities available for sale	3,349	119	156	-	-	3,624
Equity securities trading	43	82	-	-	-	125
Mortgage and other loans receivable	-	106	1	-	-	107
Other invested assets[(c)]	12,549	1,709	6,618	-	-	20,876
Derivative assets:						
Interest rate contracts	2	7,251	1,033	-	-	8,286
Foreign exchange contracts	-	143	2	-	-	145
Equity contracts	92	133	38	-	-	263
Commodity contracts	-	134	2	-	-	136
Credit contracts	-	-	89	-	-	89
Other contracts	29	462	250	-	-	741
Counterparty netting and cash collateral	-	-	-	(3,660)	(1,501)	(5,161)
Total derivative assets	123	8,123	1,414	(3,660)	(1,501)	4,499
Short-term investments[(d)]	2,309	3,604	-	-	-	5,913
Separate account assets	48,502	2,886	-	-	-	51,388
Total	$ 67,408	$ 273,189	$ 39,441	$ (3,660)	$ (1,501)	$ 374,877

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

December 31, 2011 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting**[(a)]	**Cash Collateral**[(b)]	**Total**
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 918	$ -	$ -	$ 918
Derivative liabilities:						
Interest rate contracts	-	6,661	248	-	-	6,909
Foreign exchange contracts	-	178	-	-	-	178
Equity contracts	-	198	10	-	-	208
Commodity contracts	-	146	-	-	-	146
Credit contracts[(e)]	-	4	3,362	-	-	3,366
Other contracts	-	155	217	-	-	372
Counterparty netting and cash collateral	-	-	-	(3,660)	(2,786)	(6,446)
Total derivative liabilities	-	7,342	3,837	(3,660)	(2,786)	4,733
Other long-term debt[(f)]	-	10,258	508	-	-	10,766
Other liabilities[(g)]	193	714	-	-	-	907
Total	$ 193	$ 18,314	$ 5,263	$ (3,660)	$ (2,786)	$ 17,324

(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 Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were $1.6 billion and $115 million, respectively, at June 30, 2012 and $1.8 billion and $100 million, respectively, at December 31, 2011.*

(c) *Included in Level 1 are $7.7 billion and $12.4 billion at June 30, 2012 and December 31, 2011, respectively, of AIA ordinary shares publicly traded on the Hong Kong Stock Exchange. Approximately 3 percent of the fair value of the assets recorded as Level 3 relate to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at both June 30, 2012 and December 31, 2011, respectively. AIG's ownership in these funds represented 64.2 percent, or $0.9 billion, of Level 3 assets at June 30, 2012 and 57.3 percent, or $0.7 billion, of Level 3 assets at December 31, 2011.*

(d) *Included in Level 2 is the fair value of securities purchased under agreements to resell of $0.7 billion and $0.1 billion at June 30, 2012 and December 31, 2011, respectively.*

(e) *Included in Level 3 is the fair value derivative liability of $2.5 billion and $3.2 billion at June 30, 2012 and December 31, 2011, respectively, on the super senior credit default swap portfolio.*

(f) *Includes Guaranteed Investment Agreements (GIAs), notes, bonds, loans and mortgages payable.*

(g) *Included in Level 2 is the fair value of securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased, of $1.5 billion and $45 million, respectively, at June 30, 2012. Included in Level 2 is the fair value of securities sold under agreements to repurchase, securities and spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, of $0.6 billion, $144 million and $6 million, respectively, at December 31, 2011.*

TRANSFERS OF LEVEL 1 AND LEVEL 2 ASSETS AND LIABILITIES

AIG's 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, 2012, AIG transferred $136 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, as they are no longer considered actively traded. AIG 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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American International Group, Inc.

NOTES TO 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, 2012 and 2011 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 that remained in the Consolidated Balance Sheet at June 30, 2012 and 2011:

(in millions)	Fair value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers in	Gross Transfers out	Fair value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
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**
Foreign exchange contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
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 derivative liabilities, net	**(1,922)**	**789**	**(7)**	**(770)**	**(42)**	**2**	**(1,950)**	**(128)**
Other 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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American International Group, Inc.

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(in millions)	Fair value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers in	Gross Transfers out	Fair value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
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:								
	$ (918)	$ (269)	$ -	$ (1)	$ -	$ -	$ (1,188)	$ 101

Policyholder contract deposits															
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 derivative liabilities, net		(2,423)		248		2		346		(125)		2		(1,950)	(659)
Other long-term debt[(b)]		(508)		(378)		(77)		136		-		420		(407)	54
Total	$	(3,849)	$	(399)	$	(75)	$	481	$	(125)	$	422	$	(3,545)	$ (504)

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Fair value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended June 30, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 702	$ (1)	$ 23	$ 62	$ 17	$ (3)	$ 800	$ -
Non-U.S. governments	5	-	-	-	-	-	5	-
Corporate debt	1,235	-	15	305	307	(18)	1,844	-
RMBS	6,868	79	(165)	3,905	11	(6)	10,692	-
CMBS	4,316	(7)	(109)	-	28	-	4,228	-
CDO/ABS	3,857	12	74	(382)	374	(10)	3,925	-
Total bonds available for sale	16,983	83	(162)	3,890	737	(37)	21,494	-
Bond trading securities:								
Corporate debt	18	-	-	(9)	-	-	9	-
RMBS	99	(2)	(7)	80	-	-	170	(7)
CMBS	523	28	3	(18)	80	(133)	483	34
CDO/ABS	10,461	(877)	4	(85)	-	-	9,503	(881)
Total bond trading securities	11,101	(851)	-	(32)	80	(133)	10,165	(854)
Equity securities available for sale:								
Common stock	63	3	6	(12)	2	(3)	59	-
Preferred stock	63	(1)	1	(1)	2	-	64	-
Total equity securities available for sale	126	2	7	(13)	4	(3)	123	-
Equity securities trading	1	1	-	(1)	-	-	1	1
Other invested assets	7,070	(17)	126	(161)	45	(18)	7,045	-
Total	$ 35,281	$ (782)	$ (29)	$ 3,683	$ 866	$ (191)	$ 38,828	$ (853)

Liabilities:								
Policyholder contract deposits	$ (369)	$ (33)	$ -	$ (4)	$ -	$ -	$ (406)	$ 46
Derivative liabilities, net:								
Interest rate contracts	619	138	-	(3)	-	-	754	(14)
Foreign exchange contracts	16	(12)	-	-	-	-	4	1
Equity contracts	34	-	-	-	(7)	7	34	(1)
Commodity contracts	15	(1)	-	(9)	-	-	5	-
Credit contracts	(3,420)	94	-	(6)	-	-	(3,332)	429
Other contracts	(6)	(27)	(51)	(10)	32	(7)	(69)	(114)
Total derivatives liabilities, net	(2,742)	192	(51)	(28)	25	-	(2,604)	301
Other long-term debt[(b)]	(996)	(157)	-	195	-	-	(958)	(171)
Total	$ (4,107)	$ 2	$ (51)	$ 163	$ 25	$ -	$ (3,968)	$ 176

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Fair value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Six Months Ended June 30, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 609	$ (1)	$ 27	$ 174	$ 17	$ (26)	$ 800	$ -
Non-U.S. governments	5	-	-	-	-	-	5	-
Corporate debt	2,262	(3)	22	272	533	(1,242)	1,844	-
RMBS	6,367	(2)	368	3,943	22	(6)	10,692	-
CMBS	3,604	(34)	555	72	53	(22)	4,228	-
CDO/ABS	4,241	32	312	(837)	446	(269)	3,925	-
Total bonds available for sale	17,088	(8)	1,284	3,624	1,071	(1,565)	21,494	-
Bond trading securities:								
Corporate debt	-	-	-	(9)	18	-	9	-
RMBS	91	-	(7)	86	-	-	170	(3)
CMBS	506	66	3	(76)	161	(177)	483	68
CDO/ABS	9,431	153	9	(90)	-	-	9,503	146
Total bond trading securities	10,028	219	5	(89)	179	(177)	10,165	211
Equity securities available for sale:								
Common stock	61	18	4	(27)	8	(5)	59	-
Preferred stock	64	(3)	1	-	2	-	64	-
Total equity securities available for sale	125	15	5	(27)	10	(5)	123	-
Equity securities trading	1	1	-	(1)	-	-	1	1
Other invested assets	7,414	36	469	(511)	45	(408)	7,045	-
Total	$ 34,656	$ 263	$ 1,763	$ 2,996	$ 1,305	$ (2,155)	$ 38,828	$ 212
Liabilities:								

Policyholder contract deposits	$ (445)	$ 46	$ -	$ (7)	$ -	$ -	$ (406)	$ (63)
Derivative liabilities, net:								
Interest rate contracts	732	22	-	-	-	-	754	(54)
Foreign exchange contracts	16	(12)	-	-	-	-	4	1
Equity contracts	22	(7)	-	38	(7)	(12)	34	(7)
Commodity contracts	23	2	-	(20)	-	-	5	-
Credit contracts	(3,798)	476	-	(10)	-	-	(3,332)	473
Other contracts	(112)	(23)	(26)	40	32	20	(69)	(66)
Total derivatives liabilities, net	(3,117)	458	(26)	48	25	8	(2,604)	347
Other long-term debt(b)	(982)	(211)	-	256	(21)	-	(958)	(198)
Total	$ (4,544)	$ 293	$ (26)	$ 297	$ 4	$ 8	$ (3,968)	$ 86

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

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

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

(in millions)		Net Investment Income		Net Realized Capital Gains (Losses)		Other Income		Total
Three Months Ended June 30, 2012								
Bonds available for sale	**$**	**234**	**$**	**(9)**	**$**	**28**	**$**	**253**
Bond trading securities		**1,290**		**-**		**165**		**1,455**
Equity securities		**-**		**9**		**-**		**9**
Other invested assets		**5**		**(41)**		**4**		**(32)**
Policyholder contract deposits		**-**		**(408)**		**-**		**(408)**
Derivative liabilities, net		**-**		**72**		**717**		**789**
Other long-term debt		**-**		**-**		**(268)**		**(268)**
Three Months Ended June 30, 2011								
Bonds available for sale	$	159	$	(80)	$	4	$	83
Bond trading securities		(496)		-		(355)		(851)
Equity securities		1		2		-		3
Other invested assets		(2)		(37)		22		(17)
Policyholder contract deposits		-		(33)		-		(33)
Derivative liabilities, net		1		(90)		281		192
Other long-term debt		-		-		(157)		(157)
Six Months Ended June 30, 2012								
Bonds available for sale	**$**	**465**	**$**	**(384)**	**$**	**32**	**$**	**113**
Bond trading securities		**2,839**		**-**		**303**		**3,142**
Equity securities		**-**		**25**		**-**		**25**
Other invested assets		**(9)**		**(173)**		**3**		**(179)**
Policyholder contract deposits		**-**		**(269)**		**-**		**(269)**
Derivative liabilities, net		**(1)**		**61**		**188**		**248**
Other long-term debt		**-**		**-**		**(378)**		**(378)**
Six Months Ended June 30, 2011								
Bonds available for sale	$	240	$	(256)	$	8	$	(8)
Bond trading securities		505		-		(286)		219
Equity securities		1		15		-		16
Other invested assets		44		(52)		44		36
Policyholder contract deposits		-		46		-		46
Derivative liabilities, net		1		(145)		602		458
Other long-term debt		-		-		(211)		(211)

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American International Group, Inc.

NOTES TO 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, 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[(b)]	**5,025**	**-**	**(238)**	**4,787**
Total bond trading securities	**5,095**	**(49)**	**(267)**	**4,779**
Equity securities	**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)**
Other long-term debt[(c)]	**-**	**-**	**22**	**22**
Total liabilities	**$ -**	**$ (8)**	**$ (738)**	**$ (746)**
Three Months Ended June 30, 2011				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 63	$ -	$ (1)	$ 62
Non-U.S. governments	1	(1)	-	-
Corporate debt	412	19	(126)	305
RMBS	4,307	(9)	(393)	3,905
CMBS	99	(20)	(79)	-
CDO/ABS	196	-	(578)	(382)
Total bonds available for sale	5,078	(11)	(1,177)	3,890

Bond trading securities:								
Corporate debt		-		-		(9)		(9)
RMBS		103		-		(23)		80
CMBS		60		(49)		(29)		(18)
CDO/ABS		141		(126)		(100)		(85)
Total bond trading securities		304		(175)		(161)		(32)
Equity securities		-		(8)		(6)		(14)
Other invested assets		236		(146)		(251)		(161)
Total assets	$	5,618	$	(340)	$	(1,595)	$	3,683
Liabilities:								
Policyholder contract deposits	$	-	$	(10)	$	6	$	(4)
Derivative liabilities, net		-		-		(28)		(28)
Other long-term debt[(c)]		-		-		195		195
Total liabilities	$	-	$	(10)	$	173	$	163

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issues and Settlements, Net[(a)]
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[(b)]	**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[(c)]	**-**	**-**	**136**	**136**
Total liabilities	**$ 2**	**$ (14)**	**$ 493**	**$ 481**
Six Months Ended June 30, 2011				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 176	$ -	$ (2)	$ 174
Non-U.S. governments	1	(1)	-	-
Corporate debt	420	-	(148)	272
RMBS	4,624	(22)	(659)	3,943
CMBS	241	(20)	(149)	72
CDO/ABS	261	-	(1,098)	(837)
Total bonds available for sale	5,723	(43)	(2,056)	3,624

Bond trading securities:								
Corporate debt		-		-		(9)		(9)
RMBS		103		-		(17)		86
CMBS		60		(54)		(82)		(76)
CDO/ABS		144		(126)		(108)		(90)
Total bond trading securities		307		(180)		(216)		(89)
Equity securities		-		(23)		(5)		(28)
Other invested assets		350		(158)		(703)		(511)
Total assets	$	6,380	$	(404)	$	(2,980)	$	2,996
Liabilities:								
Policyholder contract deposits	$	-	$	(19)	$	12	$	(7)
Derivative liabilities, net		39		-		9		48
Other long-term debt[(c)]		-		-		256		256
Total liabilities	$	39	$	(19)	$	277	$	297

(a)

There were no issuances during the three- and six-month periods ended June 30, 2012 and 2011.

(b)

Includes securities with a fair value of approximately $5.0 billion purchased through the FRBNY's auction of Maiden Lane III LLC (ML III) assets. Subsequent to June 30, 2012 through July 31, 2012, AIG purchased additional securities with a fair value of approximately $2.1 billion in the additional auctions of ML III assets.

(c)

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, 2012 and 2011 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

AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above excludes $11 million of net losses and $47 million of net gains related to assets and liabilities transferred into Level 3 during the three- and six-month periods ended June 30, 2012, respectively, and includes $30 million and $57 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and six-month periods ended June 30, 2012, respectively.

Transfers of Level 3 Assets

During the three- and six-month periods ended June 30, 2012, transfers into Level 3 included certain residential mortgage-backed securities (RMBS), asset-backed securities (ABS), private placement corporate debt and certain private equity funds and hedge funds. Transfers into Level 3 for certain RMBS and certain ABS were related to decreased observations of market transactions and price information for those securities. The transfers into Level 3 of investments in certain other RMBS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. Transfers into Level 3 for private placement corporate debt and certain other ABS were primarily the result of limited market pricing information that required AIG to determine fair value for these securities based on inputs that are adjusted to better reflect AIG's own assumptions regarding the characteristics of a specific security or associated market liquidity. Certain private equity fund and hedge 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 to AIG's influence over the respective investments. Other hedge fund investments were transferred into Level 3 as a result of limited market activity due to fund-imposed redemption restrictions.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable or a long-term interest rate significant to a valuation becoming short-term and thus observable. In addition, transfers out of Level 3 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 AIG's ownership interest. During the three- and six-month periods ended June 30, 2012, transfers out of Level 3 primarily related to certain RMBS, investments in private placement corporate debt and private equity funds and hedge funds. Transfers out of Level 3 for certain RMBS were based on consideration of the market liquidity as well as related transparency of pricing and associated observable inputs for these investments. Transfers out of Level 3 for private placement corporate debt were primarily the result of AIG using observable pricing information that reflects the fair value of those securities without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. The removal of fund-imposed redemption restrictions, as well as a fund investment no longer being carried at fair value, resulted in the transfer of hedge funds and private equity funds out of Level 3.

Transfers of Level 3 Liabilities

As AIG presents carrying values of its derivative positions on a net basis in the table above, transfers into Level 3 liabilities for the three- and six-month periods ended June 30, 2012, primarily related to certain derivative assets transferred out of Level 3 because of the presence of observable inputs on certain forward commitments

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and options. During the three- and six-month periods ended June 30, 2012, certain notes payable were transferred out of Level 3 because input parameters for the pricing of these liabilities became more observable as a result of market movements and portfolio aging. There were no significant transfers of derivative liabilities out of Level 3 liabilities.

AIG uses 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.

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

See Notes 2(c), (e), (f) and (g) to the Consolidated Financial Statements in the 2011 Annual Report for additional information about how AIG measures the fair value of certain assets on a non-recurring basis and how AIG tests various asset classes for impairment.

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	2012	2011	2012	2011
June 30, 2012								
Investment real estate	**$ -**	**$ -**	**$ 331**	**$ 331**	**$ -**	$ 3	**$ -**	$ 15
Other investments	**-**	**-**	**1,582**	**1,582**	**83**	239	**176**	345
Aircraft*	**-**	**-**	**161**	**161**	**75**	44	**129**	158
Other assets	**-**	**-**	**18**	**18**	**-**	-	**8**	-
Total	**$ -**	**$ -**	**$ 2,092**	**$ 2,092**	**$ 158**	$ 286	**$ 313**	$ 518
December 31, 2011								
Investment real estate	$ -	$ -	$ 457	$ 457				
Other investments	-	-	2,199	2,199				
Aircraft	-	-	1,683	1,683				
Other assets	-	-	4	4				
Total	$ -	$ -	$ 4,343	$ 4,343				

* *Aircraft impairment charges include fair value adjustments on aircraft where appropriate.*

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QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to AIG, 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 AIG, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

(in millions)		Fair Value at June 30, 2012	Valuation Technique	Unobservable Input[(a)]	Range (Weighted Average)[(a)]
Assets:					
Corporate debt	$	**793**	Discounted cash flow	Yield[(b)]	2.54% - 17.40% (7.43%)
Residential mortgage backed securities		**10,219**	Discounted cash flow	Constant prepayment rate[(c)]	0.00% - 10.57% (4.91%)
				Loss severity[(c)]	42.97% - 79.60% (61.29%)
				Constant default rate[(c)]	4.10% - 13.74% (8.92%)
				Yield[(c)]	4.92% - 11.98% (8.45%)
Certain CDO/ABS		**2,053**	Discounted cash flow	Constant prepayment rate[(c)]	0.00% - 47.15% (16.69%)
				Loss severity[(c)]	0.00% - 7.52% (0.69%)
				Constant default rate[(c)]	0.00% - 3.69% (0.29%)
				Yield[(c)]	1.93% - 6.01% (3.97%)
Commercial mortgage backed securities		**2,932**	Discounted cash flow	Yield[(b)]	0.00% - 23.66% (11.16%)
CDO/ABS Direct Investment book		**1,508**	Binomial Expansion Technique (BET)	Recovery rate[(b)]	3% - 65% (32%)
				Diversity score[(b)]	5 - 48 (15)
				Weighted average life[(b)]	1.25 - 9.64 years (4.56 years)
Liabilities:					
Policyholder contract deposits GMWB		**893**	Discounted cash flow	Equity implied volatility[(b)]	6.0% - 40.0%
				Base lapse rates[(b)]	1.0% - 40.0%
				Dynamic lapse rates[(b)]	0.2% - 60.0%
				Mortality rates[(b)]	0.5% - 40.0%
				Utilization rates[(b)]	0.5%-25.0%
Derivative Liabilities Credit contracts		**1,787**	BET	Recovery rates[(b)]	3% - 36% (16%)
				Diversity score[(b)]	7 - 31 (13)
				Weighted average life[(b)]	5.08 - 9.19 years (6.08 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 collateralized debt obligation (CDO) securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by AIG. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by AIG because there are other factors relevant to the specific tranches owned by AIG 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 AIG believes would be used by market participants when valuing these assets and liabilities.*

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

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

Sensitivity to Changes in Unobservable Inputs

AIG considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to AIG 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 discussed below. 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 residential mortgage backed securities 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 commercial mortgage backed securities 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 measurement of the portfolio. An increase in the weighted average life will decrease the fair value.

Policyholder contract deposits

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

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. AIG non-performance risk is also considered in the measurement of the liability. See Note 6 to the Consolidated Financial Statements in the 2011 Annual Report for a discussion of AIG's accounting policies and procedures regarding incorporation of AIG's own credit risk in fair value measurements.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will have a directionally similar corresponding effect on the fair value measurement of the liability.

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INVESTMENTS IN CERTAIN ENTITIES CARRIED AT FAIR VALUE USING NET ASSET VALUE PER SHARE

The following table includes information related to AIG's 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 or non-recurring basis, AIG uses the net asset value per share as a practical expedient to measure fair value.

		June 30, 2012		December 31, 2011	
(in millions)	**Investment Category Includes**	**Fair Value Using Net Asset Value or its equivalent**	**Unfunded Commitments**	**Fair Value Using Net Asset Value 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	**$ 3,281**	**$ 882**	$ 3,185	$ 945
Non-U.S.	Investments that focus primarily on Asian and European based buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies	**177**	**46**	165	57
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	**315**	**34**	316	39
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	**185**	**37**	182	42
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies	**367**	**140**	252	98
Total private equity funds		**4,325**	**1,139**	4,100	1,181
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**901**	**2**	774	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,043**	**-**	927	-
Macro	Investments that take long and short positions in financial instruments based on a top-down view of certain economic and capital market conditions	**178**	**-**	173	-
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	**293**	**-**	272	10
Other	Non-U.S. companies, futures and commodities, relative value, and multi-strategy and industry-focused strategies	**577**	**-**	627	-
Total hedge funds		**2,992**	**2**	2,773	12

Total	**$ 7,317**	**$ 1,141**	$ 6,873	$ 1,193

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, 2012, assuming average original expected lives of 10 years for the funds, 43 percent of the total fair value using net asset value or its equivalent above would have expected remaining lives of less than three years, 55 percent between three and seven years and 2 percent between seven and 10 years.

At June 30, 2012, hedge fund investments included above are redeemable monthly (12 percent), quarterly (33 percent), semi-annually (26 percent) and annually (29 percent), with redemption notices ranging from one day to 180 days. More than 61 percent of these hedge fund investments require redemption notices of less than 90 days. Investments representing approximately 52 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these

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restrictions were put in place prior to 2009 and do not have stated end dates. The restrictions that have pre-defined end dates are generally expected to be lifted by the end of 2015. The partial restrictions relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

FAIR VALUE OPTION

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

(in millions)	Gain (Loss) Three Months Ended June 30, 2012	Gain (Loss) Three Months Ended June 30, 2011	Gain (Loss) Six Months Ended June 30, 2012	Gain (Loss) Six Months Ended June 30, 2011
Assets:				
Mortgage and other loans receivable	**$ 9**	$ 6	**$ 31**	$ 1
Bonds and equity securities	**263**	481	**907**	1,437
Trading ML II interest	**-**	(176)	**246**	75
Trading ML III interest	**1,306**	(667)	**2,558**	77
Retained interest in AIA	**(493)**	1,521	**1,302**	2,583
Short-term investments and other invested assets and Other assets	**9**	12	**13**	28
Liabilities:				
Other long-term debt[(a)]	**(218)**	(451)	**(664)**	(556)
Other liabilities	**26**	(63)	**(22)**	(175)
Total gain[(b)]	**$ 902**	$ 663	**$ 4,371**	$ 3,470

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

(b) *Excludes discontinued operation gains or losses on instruments that were required to be carried at fair value in 2011. For instruments required to be carried at fair value, AIG recognized losses of $13 million and $105 million for the three months ended June 30, 2012 and 2011, respectively, and gains of $554 million and $921 million for the six months ended June 30, 2012 and 2011, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option was not elected.*

See Note 2(a) to the Consolidated Financial Statements in the 2011 Annual Report for additional information about AIG's policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

AIG recognized gains (losses) attributable to the observable effect of changes in credit spreads on AIG's own liabilities for which the fair value option was elected of $63 million of gain and $495 million of loss during the three- and six-month periods ended June 30, 2012, respectively, and $57 million and $16 million during the three-and six-month periods ended June 30, 2011, respectively. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG's 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 borrowings for which the fair value option was elected:

	June 30, 2012			December 31, 2011		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 123**	**$ 140**	**$ (17)**	$ 107	$ 150	$ (43)
Liabilities:						
Other long-term debt*	**$ 9,404**	**$ 6,992**	**$ 2,412**	$ 10,766	$ 8,624	$ 2,142

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

At June 30, 2012 and December 31, 2011, there were no significant mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

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FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table presents the carrying value and estimated fair value of AIG's financial instruments not measured at fair value and indicates the level of the estimated fair value measurement based on the levels of the inputs used:

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
June 30, 2012					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 542**	**$ 20,434**	**$ 20,976**	**$ 19,265**
Other invested assets	**-**	**601**	**3,037**	**3,638**	**4,889**
Short-term investments	**-**	**17,007**	**-**	**17,007**	**17,006**
Cash	**1,232**	**-**	**-**	**1,232**	**1,232**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**182**	**126,390**	**126,572**	**107,401**
Other liabilities	**-**	**-**	**3,438**	**3,438**	**3,442**
Long-term debt	**17,369**	**47,253**	**2,301**	**66,923**	**64,493**
December 31, 2011					
Assets:					
Mortgage and other loans receivable				$ 20,494	$ 19,382
Other invested assets				3,390	4,701
Short-term investments				16,657	16,659
Cash				1,474	1,474
Liabilities:					
Policyholder contract deposits associated with investment-type contracts				122,125	106,950
Other liabilities				896	896
Long-term debt				61,295	64,487

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5. INVESTMENTS

SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost or cost and fair value of AIG's 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, 2012					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 3,665**	**$ 355**	**$ (3)**	**$ 4,017**	**$ -**
Obligations of states, municipalities and political subdivisions	**34,597**	**2,717**	**(60)**	**37,254**	**(24)**
Non-U.S. governments	**24,245**	**1,187**	**(51)**	**25,381**	**-**
Corporate debt	**133,688**	**13,577**	**(937)**	**146,328**	**109**
Mortgage-backed, asset-backed and collateralized:					
RMBS	**32,453**	**1,920**	**(715)**	**33,658**	**179**
CMBS	**8,931**	**535**	**(675)**	**8,791**	**(167)**
CDO/ABS	**7,211**	**667**	**(293)**	**7,585**	**119**
Total mortgage-backed, asset-backed and collateralized	**48,595**	**3,122**	**(1,683)**	**50,034**	**131**
Total bonds available for sale[(b)]	**244,790**	**20,958**	**(2,734)**	**263,014**	**216**
Equity securities available for sale:					
Common stock	**1,479**	**1,213**	**(41)**	**2,651**	**-**
Preferred stock	**146**	**39**	**-**	**185**	**-**
Mutual funds	**108**	**4**	**(1)**	**111**	**-**
Total equity securities available for sale	**1,733**	**1,256**	**(42)**	**2,947**	**-**
Other invested assets carried at fair value[(c)]	**5,161**	**1,854**	**(143)**	**6,872**	**-**
Total	**$ 251,684**	**$ 24,068**	**$ (2,919)**	**$ 272,833**	**$ 216**
December 31, 2011					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 5,661	$ 418	$ (1)	$ 6,078	$ -
Obligations of states, municipalities and political subdivisions	35,017	2,554	(73)	37,498	(28)
Non-U.S. governments	24,843	994	(102)	25,735	-
Corporate debt	134,699	11,844	(1,725)	144,818	115
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,780	1,387	(1,563)	34,604	(716)
CMBS	8,449	470	(973)	7,946	(276)
CDO/ABS	7,321	454	(473)	7,302	49
Total mortgage-backed, asset-backed and collateralized	50,550	2,311	(3,009)	49,852	(943)
Total bonds available for sale[(b)]	250,770	18,121	(4,910)	263,981	(856)

Equity securities available for sale:									
Common stock		1,682		1,839		(100)		3,421	-
Preferred stock		83		60		-		143	-
Mutual funds		55		6		(1)		60	-
Total equity securities available for sale		1,820		1,905		(101)		3,624	-
Other invested assets carried at fair value[(c)]		5,155		1,611		(269)		6,497	-
Total	$	257,745	$	21,637	$	(5,280)	$	274,102	$ (856)

(a)

Represents the amount of other-than-temporary impairment losses 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, 2012 and December 31, 2011, bonds available for sale held by AIG that were below investment grade or not rated totaled $27.4 billion and $24.2 billion, respectively.

(c)

Represents private equity and hedge fund investments carried at fair value for which unrealized gains and losses are required to be recognized in other comprehensive income.

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Securities Available for Sale in a Loss Position

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

	Less than 12 Months		**12 Months or More**		**Total**	
(in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
June 30, 2012						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 625**	**$ 3**	**$ 5**	**$ -**	**$ 630**	**$ 3**
Obligations of states, municipalities and political subdivisions	**627**	**5**	**338**	**55**	**965**	**60**
Non-U.S. governments	**1,134**	**24**	**424**	**27**	**1,558**	**51**
Corporate debt	**8,487**	**307**	**5,901**	**630**	**14,388**	**937**
RMBS	**3,098**	**163**	**3,296**	**552**	**6,394**	**715**
CMBS	**1,083**	**60**	**1,963**	**615**	**3,046**	**675**
CDO/ABS	**311**	**9**	**1,822**	**284**	**2,133**	**293**
Total bonds available for sale	**15,365**	**571**	**13,749**	**2,163**	**29,114**	**2,734**
Equity securities available for sale:						
Common stock	**274**	**38**	**11**	**3**	**285**	**41**
Preferred stock	**2**	**-**	**-**	**-**	**2**	**-**
Mutual funds	**24**	**-**	**2**	**1**	**26**	**1**
Total equity securities available for sale	**300**	**38**	**13**	**4**	**313**	**42**
Total	**$ 15,665**	**$ 609**	**$ 13,762**	**$ 2,167**	**$ 29,427**	**$ 2,776**
December 31, 2011						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 142	$ 1	$ -	$ -	$ 142	$ 1
Obligations of states, municipalities and political subdivisions	174	1	669	72	843	73
Non-U.S. governments	3,992	67	424	35	4,416	102
Corporate debt	18,099	937	5,907	788	24,006	1,725
RMBS	10,624	714	4,148	849	14,772	1,563
CMBS	1,697	185	1,724	788	3,421	973
CDO/ABS	1,680	50	1,682	423	3,362	473
Total bonds available for sale	36,408	1,955	14,554	2,955	50,962	4,910
Equity securities available for sale:						
Common stock	608	100	-	-	608	100
Preferred stock	6	-	-	-	6	-

Mutual funds	2	1	-	-	2	1
Total equity securities available for sale	616	101	-	-	616	101
Total	$ 37,024	$ 2,056	$ 14,554	$ 2,955	$ 51,578	$ 5,011

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

At June 30, 2012, AIG held 4,970 and 244 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,957 individual fixed maturity securities were in a continuous unrealized loss position for longer than 12 months. AIG did not recognize the unrealized losses in earnings on these fixed maturity securities at June 30, 2012, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis 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, 2012	**Total Fixed Maturity Available for Sale Securities**		**Fixed Maturity Securities in a Loss Position**	
(in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 9,707	$ 9,868	$ 959	$ 947
Due after one year through five years	55,077	57,759	6,685	6,440
Due after five years through ten years	70,238	76,246	5,578	5,219
Due after ten years	61,173	69,107	5,370	4,935
Mortgage-backed, asset-backed and collateralized	48,595	50,034	13,256	11,573
Total	$ 244,790	$ 263,014	$ 31,848	$ 29,114

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 AIG's available for sale securities:

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2012		**2011**		**2012**		**2011**	
(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 maturities	**$ 875**	**$ 23**	$ 662	$ 38	**$ 1,365**	**$ 39**	$ 850	$ 93
Equity securities	**14**	**1**	43	6	**465**	**4**	148	8
Total	**$ 889**	**$ 24**	$ 705	$ 44	**$ 1,830**	**$ 43**	$ 998	$ 101

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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, $21.5 billion, respectively, which resulted in net realized capital gains of $0.9 billion and $1.8 billion, respectively. For the three- and six-month periods ended June 30, 2011, the aggregate fair value of available for sale securities sold was $12.6 billion and $24.1 billion, respectively, which resulted in net realized capital gains of $0.7 billion and $0.9 billion, respectively.

TRADING SECURITIES

The following table presents the fair value of AIG's trading securities:

	June 30, 2012		December 31, 2011	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed Maturities:				
U.S. government and government sponsored entities	**$ 7,592**	**25%**	$ 7,504	31%
Non-U.S. governments	**34**	**-**	35	-
Corporate debt	**1,060**	**3**	816	3
State, territories and political subdivisions	**236**	**1**	257	1
Mortgage-backed, asset-backed and collateralized:				
RMBS	**1,448**	**5**	1,648	7
CMBS	**2,133**	**7**	1,837	7
CDO/ABS and other collateralized*	**10,271**	**33**	5,282	22
Total mortgage-backed, asset-backed and collateralized	**13,852**	**45**	8,767	36
ML II	**-**	**-**	1,321	5
ML III	**8,145**	**26**	5,664	23
Total fixed maturities	**30,919**	**100**	24,364	99
Equity securities	**103**	**-**	125	1
Total	**$ 31,022**	**100%**	$ 24,489	100%

* *Includes securities with a fair value of approximately $5.0 billion purchased through the FRBNY's auction of ML III assets. Subsequent to June 30, 2012 and through July 31, 2012, AIG purchased additional securities with a fair value of approximately $2.1 billion in the additional auctions of ML III assets.*

MAIDEN LANE III

From inception and prior to June 30, 2012, AIG valued its investment in ML III using a discounted cash flow methodology that (i) used the estimated future cash flows and the fair value of the ML III assets, (ii) allocated the estimated future cash flows according to the ML III waterfall, and (iii) determined the discount rate to be applied to AIG's interest in ML III by reference to the discount rate implied by the estimated value of ML III assets and the estimated future cash flows of AIG's interest in the capital structure. Estimated cash flows and discount rates used in the valuations were validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms. During the second quarter of 2012, the FRBNY sold an aggregate of approximately $27 billion face amount of certain assets of the ML III portfolio, and on June 14, 2012, the FRBNY announced its outstanding loan to ML III had been fully repaid with interest. As a result of these sales, AIG modified its methodology for estimating the fair value of its remaining interest in ML III at June 30, 2012 to incorporate the assumption of a current liquidation, which (i) uses the estimated fair value of the ML III assets and (ii) allocates the estimated asset fair value according to the ML III waterfall.

In June and July 2012, AIG received payments of $77 million and $6.0 billion, respectively, which included AIG's original $5.0 billion equity interest in ML III and $1.1 billion in contractual and additional distributions.

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The FRBNY has continued to auction the remaining ML III assets and any additional proceeds from such sales will be allocated 67 percent to the FRBNY and 33 percent to AIG.

AIG has participated as a purchaser in the FRBNY sales of ML III assets and may participate in future sales.

EVALUATING INVESTMENTS FOR OTHER-THAN-TEMPORARY IMPAIRMENTS

For a discussion of AIG's policy for evaluating investments for other-than-temporary impairments, see Note 7 to the Consolidated Financial Statements in the 2011 Annual Report.

CREDIT IMPAIRMENTS

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by AIG, and includes structured, corporate, municipal and sovereign fixed maturity securities:

(in millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Balance, beginning of period	**$ 6,464**	$ 6,540	**$ 6,504**	$ 6,786
Increases due to:				
Credit impairments on new securities subject to impairment losses	**35**	33	**172**	85
Additional credit impairments on previously impaired securities	**69**	85	**376**	235
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(248)**	(155)	**(518)**	(325)
Accretion on securities previously impaired due to credit*	**(231)**	(107)	**(453)**	(207)
Hybrid securities with embedded credit derivatives reclassified to Bond trading securities	**-**	-	**-**	(179)
Other	**1**	-	**9**	1
Balance, end of period	**$ 6,090**	$ 6,396	**$ 6,090**	$ 6,396

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

Purchased Credit Impaired (PCI) Securities

In the second quarter of 2011, AIG began purchasing certain RMBS securities that had experienced deterioration in credit quality since their issuance. Management determined, based on its expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that AIG would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments, for these PCI securities. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security was determined based on management's best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change, as discussed further below.

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

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

(in millions)		At Date of Acquisition
Contractually required payments (principal and interest)	$	18,469
Cash flows expected to be collected*		14,304
Recorded investment in acquired securities		9,144

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

(in millions)		June 30, 2012		December 31, 2011
Outstanding principal balance	**$**	**12,519**	$	10,119
Amortized cost		**7,978**		7,006
Fair value		**8,041**		6,535

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

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)		2012		2011		2012		2011
Balance, beginning of period	**$**	**5,146**	$	-	**$**	**4,135**	$	-
Newly purchased PCI securities		**196**		2,416		**1,418**		2,416
Disposals		**(121)**		-		**(168)**		-
Accretion		**(177)**		(77)		**(345)**		(77)
Effect of changes in interest rate indices		**(133)**		(8)		**(161)**		(8)
Net reclassification (to) from non-accretable difference, including effects of prepayments		**39**		(23)		**71**		(23)
Balance, end of period	**$**	**4,950**	$	2,308	**$**	**4,950**	$	2,308

PLEDGED INVESTMENTS

Secured Financing and Similar Arrangements

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

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Secured financing transactions also include securities sold under agreements to repurchase (repurchase agreements), in which AIG transfers securities in exchange for cash, with an agreement by AIG to repurchase the same or substantially similar securities. In the majority of these repurchase agreements, the securities transferred by AIG may be sold or repledged by the counterparties.

Under the secured financing transactions described above, securities available for sale with a fair value of $7.2 billion and $2.3 billion at June 30, 2012 and December 31, 2011, respectively, and trading securities with a fair value of $3.5 billion and $2.8 billion at June 30, 2012 and December 31, 2011, respectively, were pledged to counterparties.

Prior to January 1, 2012, in the case of repurchase agreements where AIG did not obtain collateral sufficient to fund substantially all of the cost of purchasing identical replacement securities during the term of the contract (generally less than 90 percent of the security value), AIG accounted for the transaction as a sale of the security and reported the obligation to repurchase the security as a derivative contract. Effective January 1, 2012, the level of collateral received by the transferor in a repurchase agreement or similar arrangement is no longer relevant in determining whether the transaction should be accounted for as a sale. The fair value of securities transferred under repurchase agreements accounted for as sales was $259 million and $2.1 billion at June 30, 2012 and December 31, 2011, respectively.

AIG also enters into agreements in which securities are purchased by AIG under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. For these transactions, AIG takes possession of or obtains a security interest in the related securities, and AIG has the right to sell or repledge this collateral received. The fair value of securities collateral pledged to AIG was $6.9 billion and $6.8 billion at June 30, 2012 and December 31, 2011, respectively, of which $1.5 billion and $122 million was repledged by AIG.

Insurance   Statutory and Other Deposits

Total carrying values of cash and securities deposited by AIG's insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance agreements, were $8.9 billion and $9.8 billion at June 30, 2012 and December 31, 2011, respectively.

Other Pledges

Certain AIG subsidiaries are members of Federal Home Loan Banks (FHLBs), and such membership requires the members to own stock in these FHLBs. AIG subsidiaries owned an aggregate of $83 million and $77 million of stock in FHLBs at June 30, 2012 and December 31, 2011, respectively. To the extent an AIG subsidiary borrows from the FHLB, its ownership interest in the stock of FHLBs will be pledged to the FHLB. In addition, AIG subsidiaries have pledged securities available for sale with a fair value of $93 million at June 30, 2012, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted by AIG upon a downgrade of AIG's long-term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at and after the time of the downgrade. The fair value of securities pledged as collateral with respect to these obligations approximated $5.0 billion and $5.1 billion at June 30, 2012 and December 31, 2011, respectively. This collateral primarily consists of securities of the U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

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6. LENDING ACTIVITIES

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

(in millions)	June 30, 2012	December 31, 2011
Commercial mortgages*	**$ 13,723**	$ 13,554
Life insurance policy loans	**2,979**	3,049
Commercial loans, other loans and notes receivable	**3,369**	3,626
Total mortgage and other loans receivable	**20,071**	20,229
Allowance for losses	**(684)**	(740)
Mortgage and other loans receivable, net	**$ 19,387**	$ 19,489

* *Commercial mortgages primarily represent loans for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (approximately 23 percent and 14 percent, respectively, at June 30, 2012 and December 31, 2011). Over 98 percent of the commercial mortgages were current as to payments of principal and interest at June 30, 2012 and December 31, 2011.*

The following table presents the credit quality indicators for commercial mortgage loans:

June 30, 2012 *(dollars in millions)*	Number of Loans	Class: Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total $
Credit Quality Indicator:									
In good standing	1,010	$ 1,663	$ 4,896	$ 2,531	$ 1,819	$ 960	$ 1,356	$ 13,225	97%
Restructured[(a)]	8	50	206	7	9	-	21	293	2
90 days or less delinquent	4	-	16	-	-	-	3	19	-
>90 days delinquent or in process of foreclosure	15	-	61	-	40	-	85	186	1
Total[(b)]	1,037	$ 1,713	$ 5,179	$ 2,538	$ 1,868	$ 960	$ 1,465	$ 13,723	100%
Valuation allowance		$ 16	$ 117	$ 19	$ 58	$ 11	$ 41	$ 262	2%

(a) *Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. See discussion of troubled debt restructurings in Note 8 to the Consolidated Financial Statements in the 2011 Annual Report.*

(b)