AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 01, 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 September 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 October 26, 2012, there were 1,476,304,497 shares outstanding of the registrant's common stock.

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AMERICAN INTERNATIONAL GROUP, INC.
QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. / FINANCIAL STATEMENTS

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET *(unaudited)*

(in millions, except for share data)	September 30, 2012	December 31, 2011
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2012 $246,690; 2011 $250,770)	$ 269,914	$ 263,981
Bond trading securities, at fair value	24,837	24,364
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2012 $1,676; 2011 $1,820)	3,021	3,624
Common and preferred stock trading, at fair value	98	125
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2012 $130; 2011 $107)	19,330	19,489
Flight equipment primarily under operating leases, net of accumulated depreciation	34,932	35,539
Other invested assets (portion measured at fair value: 2012 $15,033; 2011 $20,876)	35,426	40,744
Short-term investments (portion measured at fair value: 2012 $7,300; 2011 $5,913)	22,557	22,572
Total investments	410,115	410,438
Cash	1,608	1,474
Accrued investment income	3,153	3,108
Premiums and other receivables, net of allowance	14,564	14,721
Reinsurance assets, net of allowance	27,066	27,211
Current and deferred income taxes	14,119	17,802
Deferred policy acquisition costs	8,204	8,937
Derivative assets, at fair value	3,456	4,499
Other assets, including restricted cash of $2,293 in 2012 and $2,988 in 2011 (portion measured at fair value: 2012 $698; 2011 $0)	11,698	12,782
Separate account assets, at fair value	56,740	51,388
Total assets	$ 550,723	$ 552,360

Liabilities:				
Liability for unpaid claims and claims adjustment expense	$	**87,413**	$	91,145
Unearned premiums		**24,418**		23,465
Future policy benefits for life and accident and health insurance contracts		**35,831**		34,317
Policyholder contract deposits (portion measured at fair value: 2012 $1,308; 2011 $918)		**127,478**		126,898
Other policyholder funds		**6,303**		6,691
Derivative liabilities, at fair value		**4,314**		4,733
Other liabilities (portion measured at fair value: 2012 $930; 2011 $907)		**31,905**		27,554
Long-term debt (portion measured at fair value: 2012 $8,835; 2011 $10,766)		**73,748**		75,253
Separate account liabilities		**56,740**		51,388
Total liabilities		**448,150**		441,444
Contingencies, commitments and guarantees (see Note 9)				
Redeemable noncontrolling interests (see Note 11):				
Nonvoting, callable, junior preferred interests held by Department of the Treasury				8,427
Other		**159**		96
Total redeemable noncontrolling interests		**159**		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 430,316,923; 2011 9,746,617 shares of common stock		**(13,925)**		(942)
Additional paid-in capital		**81,768**		81,787
Retained earnings		**18,170**		10,774
Accumulated other comprehensive income		**10,887**		5,153
Total AIG shareholders' equity		**101,666**		101,538
Non-redeemable noncontrolling interests		**748**		855
Total equity		**102,414**		102,393
Total liabilities and equity	$	**550,723**	$	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.

AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED STATEMENT OF OPERATIONS *(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
llars in millions, except per share data)	2012	2011	2012	201
evenues:				
emiums	$ 9,503	$ 9,829	$ 28,583	$ 29,20
licy fees	691	658	2,056	2,02
et investment income	4,650	128	16,236	10,16
et realized capital gains (losses):				
otal other-than-temporary impairments on available for sale securities	(34)	(493)	(301)	(89
rtion of other-than-temporary impairments on available for sale fixed aturity securities recognized in Other comprehensive income (loss)	(36)	71	(372)	13
et other-than-temporary impairments on available for sale securities cognized in net income (loss)	(70)	(422)	(673)	(76
her realized capital gains	717	1,029	1,467	70
otal net realized capital gains (losses)	647	607	794	(5
rcraft leasing revenue	1,147	1,129	3,426	3,41
her income	1,010	368	2,119	2,07
otal revenues	17,648	12,719	53,214	46,83
enefits, claims and expenses:				
licyholder benefits and claims incurred	7,991	8,333	22,862	25,37
erest credited to policyholder account balances	1,191	1,146	3,324	3,36
mortization of deferred acquisition costs	1,522	1,540	4,341	4,09
her acquisition and insurance expenses	2,214	2,067	6,736	6,16
erest expense	988	970	2,895	3,05
rcraft leasing expenses	720	2,057	1,991	3,26
et loss on extinguishment of debt			32	3,39
her expenses	427	876	2,103	1,91
otal benefits, claims and expenses	15,053	16,989	44,284	50,62
come (loss) from continuing operations before income taxes	2,595	(4,270)	8,930	(3,78
come taxes expense (benefit)	735	(665)	1,290	(1,18
come (loss) from continuing operations	1,860	(3,605)	7,640	(2,59
come (loss) from discontinued operations, net of income taxes	1	(221)	9	2,32

et income (loss)		1,861		(3,826)		7,649	(27
ss:							
et income from continuing operations attributable to ncontrolling interests:							
onvoting, callable, junior and senior preferred interests				145		208	53
her		5		19		45	2
otal net income from continuing operations attributable to ncontrolling interests		5		164		253	56
et income (loss) from discontinued operations attributable to ncontrolling interests							1
otal net income attributable to noncontrolling interests		5		164		253	58
et income (loss) attributable to AIG	$	1,856	$	(3,990)	$	7,396	$ (85
et income (loss) attributable to AIG common shareholders	$	1,856	$	(3,990)	$	7,396	$ (1,66
come (loss) per common share attributable to AIG common areholders:							
sic:							
come (loss) from continuing operations	$	1.13	$	(1.99)	$	4.21	$ (2.2
come (loss) from discontinued operations	$		$	(0.11)	$		$ 1.3
luted:							
come (loss) from continuing operations	$	1.13	$	(1.99)	$	4.21	$ (2.2
come (loss) from discontinued operations	$		$	(0.11)	$		$ 1.3
eighted average shares outstanding:							
sic		1,642,472,814		1,899,500,628		1,757,955,937	1,765,905,77
luted		1,642,502,251		1,899,500,628		1,757,984,154	1,765,905,77

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 (LOSS) *(unaudited)*

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2012	2011	2012	2011
Net income (loss)	$ 1,861	$ (3,826)	$ 7,649	$ (272)
Other comprehensive income (loss), net of tax				
Change in unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	497	(184)	1,127	105
Change in unrealized appreciation (depreciation) of all other investments	2,331	(2,008)	4,617	(954)
Change in foreign currency translation adjustments	240	(582)	(96)	(811)
Change in net derivative gains (losses) arising from cash flow hedging activities	2	(57)	25	14
Change in retirement plan liabilities adjustment	29	(339)	61	(190)
Other comprehensive income (loss)	3,099	(3,170)	5,734	(1,836)
Comprehensive income (loss)	4,960	(6,996)	13,383	(2,108)
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests		145	208	538
Comprehensive income (loss) attributable to other noncontrolling interests	8	(87)	45	(106)
Total comprehensive income attributable to noncontrolling interests	8	58	253	432
Comprehensive income (loss) attributable to AIG	$ 4,952	$ (7,054)	$ 13,130	$ (2,540)

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 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
Nine Months Ended September 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			17	(15)			2		2
Purchase of common stock			(13,000)				(13,000)		(13,000)
Net income attributable to AIG or other noncontrolling interests*					7,396		7,396	40	7,436
Other comprehensive income (loss)						5,734	5,734	(4)	5,730
Deferred income taxes				(9)			(9)		(9)
Contributions from noncontrolling interests								58	58
Distributions to noncontrolling interests								(175)	(175)
Other				5			5	(26)	(21)
Balance, end of period	$	$ 4,766	$ (13,925)	$ 81,768	$ 18,170	$ 10,887	$ 101,666	$ 748	$ 102,414
Nine Months Ended September 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		9		2,160			2,169		2,169
Net income (loss) attributable to AIG or other noncontrolling interests*					(857)		(857)	51	(806)
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests								74	74
Other comprehensive loss						(1,683)	(1,683)	(153)	(1,836)
Acquisition of noncontrolling interest				(160)		88	(72)	(487)	(559)
Net decrease due to deconsolidation								(123)	(123)
Contributions from noncontrolling interests								93	93

Distributions to noncontrolling interests								(127)	(127)
Other		(1)	1	(3)			(3)	(45)	(48)
Balance, end of period	$	$4,764	$ (872)	$81,776	$(10,705)	$ 5,948	$ 80,911	$ 771	$ 81,682

* Excludes gains of $213 million and $460 million for the nine months ended September 30, 2012 and 2011, respectively, attributable to redeemable noncontrolling interests. See Note 11.

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 CASH FLOWS *(unaudited)*

Nine Months Ended September 30, *(in millions)*	2012	2011
Cash flows from operating activities:		
Net income (loss)	$ 7,649	$ (272)
Income from discontinued operations	(9)	(2,327)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Net gains on sales of securities available for sale and other assets	(2,827)	(1,131)
Net losses on extinguishment of debt	32	3,392
Unrealized (gains) losses in earnings net	(4,578)	714
Equity in income from equity method investments, net of dividends or distributions	(527)	(840)
Depreciation and other amortization	5,541	5,618
Impairments of assets	1,371	3,052
Changes in operating assets and liabilities:		
General and life insurance reserves	(1,119)	4,190
Premiums and other receivables and payables net	1,220	686
Reinsurance assets and funds held under reinsurance treaties	272	(4,258)
Capitalization of deferred policy acquisition costs	(4,260)	(4,110)
Current and deferred income taxes net	885	(1,829)
Payment of FRBNY Credit Facility accrued compounded interest and fees		(6,363)
Other, net	(811)	(1,093)
Total adjustments	(4,801)	(1,972)
Net cash provided by (used in) operating activities continuing operations	2,839	(4,571)
Net cash provided by operating activities discontinued operations		3,370
Net cash provided by (used in) operating activities	2,839	(1,201)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of available for sale and hybrid investments	30,789	33,063
Maturities of fixed maturity securities available for sale and hybrid investments	16,623	15,021
Sales of trading securities	14,541	9,105
Sales or distributions of other invested assets (including flight equipment)	11,007	6,539
Sales of divested businesses, net		587
Principal payments received on and sales of mortgage and other loans receivable	2,251	2,515
Purchases of available for sale and hybrid investments	(47,842)	(69,598)
Purchases of trading securities	(2,871)	(960)

Purchases of other invested assets (including flight equipment)	(4,871)	(5,351)
Mortgage and other loans receivable issued and purchased	(2,110)	(1,735)
Net change in restricted cash	695	26,408
Net change in short-term investments	1,141	15,410
Net change in derivative assets and liabilities	(118)	982
Other, net	(77)	(318)
Net cash provided by investing activities continuing operations	19,158	31,668
Net cash provided by investing activities discontinued operations		4,478
Net cash provided by investing activities	19,158	36,146
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	10,092	13,907
Policyholder contract withdrawals	(10,426)	(10,538)
FRBNY credit facility repayments		(14,622)
Issuance of long-term debt	7,985	6,297
Repayments of long-term debt	(9,847)	(14,944)
Proceeds from drawdown on the Department of the Treasury Commitment		20,292
Repayment of Department of the Treasury SPV Preferred Interests	(8,636)	(11,453)
Repayment of FRBNY SPV Preferred Interests		(26,432)
Issuance of Common Stock		5,055
Purchase of Common Stock	(13,000)	
Acquisition of noncontrolling interest	(175)	(683)
Other, net	2,153	(381)
Net cash used in financing activities continuing operations	(21,854)	(33,502)
Net cash used in financing activities discontinued operations		(1,942)
Net cash used in financing activities	(21,854)	(35,444)
Effect of exchange rate changes on cash	(9)	37
Net increase (decrease) in cash	134	(462)
Cash at beginning of period	1,474	1,558
Change in cash of businesses held for sale		446
Cash at end of period	$ 1,608	$ 1,542

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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Supplementary Disclosure of Consolidated Cash Flow Information

Nine Months Ended September 30, *(in millions)*	2012	2011
Cash paid during the period for:		
Interest*	$ 3,056	$ 7,952
Taxes	$ 403	$ 643
Non-cash financing/investing activities:		
Interest credited to policyholder contract deposits included in financing activities	$ 3,375	$ 3,602

* 2011 includes payment of accrued compounded interest of $4.7 billion under the Credit Agreement, dated as of September 22, 2008, as amended between AIG and the Federal Reserve Bank of New York (the FRBNY and, such credit agreement, 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 FRBNY and the AIG Credit Facility Trust, including the repayment of all amounts owed under the FRBNY Credit Facility.

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

1. BASIS OF PRESENTATION

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange and the Tokyo Stock Exchange. The United States Department of the Treasury (Department of the Treasury) owned approximately 15.9 percent of AIG Common Stock outstanding as of September 30, 2012. See Note 10 herein for additional information on the Department of the Treasury's ownership of AIG Common Stock and the registered public offerings of AIG Common Stock initiated by the Department of the Treasury in 2012.

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 Forms 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 September 30, 2012 and prior to the issuance of these consolidated financial statements. All material intercompany accounts and transactions have been eliminated.

Revisions to Prior Year Financial Statements

On January 1, 2012, AIG retrospectively 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 the 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. Specifically, amounts attributable to derivative activity where AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP) executed transactions with third parties on behalf of AIG subsidiaries have been reclassified from Other income 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 in accordance with GAAP 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

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

application of estimates and assumptions to be those relating to items considered by management in the determination of:

- income tax assets and liabilities, 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;
- impairment charges, including other-than-temporary impairments of financial instruments and goodwill impairments;
- liabilities for legal contingencies; and
- fair value measurements of certain financial assets and liabilities.

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

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. 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.

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 intends to adopt the standard on its required effective date of January 1, 2013. 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 DAC. 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

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

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.

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

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American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Three Months Ended September 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)]	$ 604	$ 3	$ 607
Total revenues	12,716	3	12,719
Interest credited to policyholder account balances	1,134	12	1,146
Amortization of deferred acquisition costs	2,490	(950)	1,540
Other acquisition and other insurance expenses	1,214	853	2,067
Total benefits, claims and expenses	17,074	(85)	16,989
Loss from continuing operations before income tax benefit	(4,358)	88	(4,270)
Income tax benefit[(b)]	(634)	(31)	(665)
Loss from continuing operations	(3,724)	119	(3,605)
Loss from discontinued operations, net of income tax expense[(c)]	(221)		(221)
Net loss	(3,945)	119	(3,826)
Net loss attributable to AIG	(4,109)	119	(3,990)
Net loss attributable to AIG common shareholders	(4,109)	119	(3,990)
Loss per share attributable to AIG common shareholders:			
Basic:			
Loss from continuing operations	$ (2.05)	$ 0.06	$ (1.99)
Loss from discontinued operations	$ (0.11)	$	$ (0.11)
Diluted			
Loss from continuing operations	$ (2.05)	$ 0.06	$ (1.99)
Loss from discontinued operations	$ (0.11)	$	$ (0.11)

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American International Group, Inc.

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Nine Months Ended September 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]	$ (63)	$ 10	$ (53)
Total revenues	46,828	10	46,838
Interest credited to policyholder account balances	3,349	17	3,366
Amortization of deferred acquisition costs	5,992	(1,899)	4,093
Other acquisition and other insurance expenses	4,418	1,746	6,164
Total benefits, claims and expenses	50,760	(136)	50,624
Loss from continuing operations before income tax benefit	(3,932)	146	(3,786)
Income tax benefit[b]	(1,122)	(65)	(1,187)
Loss from continuing operations	(2,810)	211	(2,599)
Income from discontinued operations, net of income tax expense[c]	1,395	932	2,327
Net loss	(1,415)	1,143	(272)
Net loss attributable to AIG	(2,000)	1,143	(857)
Net loss attributable to AIG common shareholders	(2,812)	1,143	(1,669)
Income (loss) per share attributable to AIG common shareholders:			
Basic:			
Loss from continuing operations	$ (2.37)	$ 0.12	$ (2.25)
Income from discontinued operations	$ 0.78	$ 0.52	$ 1.30
Diluted			
Loss from continuing operations	$ (2.37)	$ 0.12	$ (2.25)
Income from discontinued operations	$ 0.78	$ 0.52	$ 1.30

(a) Includes $192 million and $110 million for the three and nine months ended September 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 each 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.

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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.

Nine Months Ended September 30, 2011 (in millions)	As Previously Reported	Effect of Change	As Currently Reported
Cash flows from operating activities:			
Net loss	$ (1,415)	$ 1,143	$ (272)
(Income) from discontinued operations	(1,395)	(932)	(2,327)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Noncash revenues, expenses, gains and losses included in income (loss):			
Unrealized losses in earnings net*	724	(10)	714
Depreciation and other amortization	7,500	(1,882)	5,618
Changes in operating assets and liabilities:			
Capitalization of deferred policy acquisition costs	(5,856)	1,746	(4,110)
Current and deferred income taxes net	(1,764)	(65)	(1,829)
Total adjustments	(1,761)	(211)	(1,972)

* Includes $118 million for the nine months ended September 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. As a consequence, 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, there are no repurchase agreements that continue to be accounted for as sales as of September 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 September 30, 2012, there were no such modifications subsequent to the adoption of the standard.

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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 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 have any effect on AIG's consolidated financial condition, results of operations or cash flows.

3. SEGMENT INFORMATION

Commencing in the third quarter of 2012, the Chartis segment was renamed AIG Property Casualty and the SunAmerica segment was renamed AIG Life and Retirement, although certain existing brands will continue to be used.

AIG reports the results of its operations through three reportable segments: AIG Property Casualty, AIG Life and Retirement 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 AIG Property Casualty businesses to assess performance and make decisions about resources to be allocated, certain products previously reported in Commercial Insurance were reclassified to

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Consumer Insurance. These revisions did not affect the total AIG Property Casualty reportable segment results previously reported.

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

(in millions)	Reportable Segment AIG Property Casualty	AIG Life and Retirement	Aircraft Leasing*	Other Operations	Consolidation and Eliminations	Consolidated
Three Months Ended September 30, 2012						
Total revenues	$ 10,149	$ 4,530	$ 1,146	$ 2,213	$ (390)	$ 17,648
Pre-tax income (loss)	949	889	40	891	(174)	2,595
Three Months Ended September 30, 2011						
Total revenues	$ 10,185	$ 3,582	$ 1,106	$ (2,433)	$ 279	$ 12,719
Pre-tax income (loss)	551	346	(1,329)	(3,945)	107	(4,270)
Nine Months Ended September 30, 2012						
Total revenues	$ 29,967	$ 12,439	$ 3,421	$ 8,085	$ (698)	$ 53,214
Pre-tax income (loss)	2,820	2,528	246	3,511	(175)	8,930
Nine Months Ended September 30, 2011						
Total revenues	$ 30,283	$ 11,317	$ 3,366	$ 1,864	$ 8	$ 46,838
Pre-tax income (loss)	1,003	2,079	(1,122)	(5,855)	109	(3,786)

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

The following table presents AIG Property Casualty operations by operating segment:

(in millions)	Commercial Insurance	Consumer Insurance	Other	Total AIG Property Casualty
Three Months Ended September 30, 2012				
Total revenues	$ 5,975	$ 3,582	$ 592	$ 10,149
Pre-tax income	321	152	476	949

Three Months Ended September 30, 2011

Total revenues	$	6,402	$	3,523	$	260	$	10,185
Pre-tax income		405		21		125		551
Nine Months Ended September 30, 2012								
Total revenues	$	17,991	$	10,758	$	1,218	$	29,967
Pre-tax income		1,480		578		762		2,820
Nine Months Ended September 30, 2011								
Total revenues	$	18,905	$	10,439	$	939	$	30,283
Pre-tax income (loss)		650		(175)		528		1,003

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American International Group, Inc.

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The following table presents AIG Life and Retirement operations by operating segment:

(in millions)	Life Insurance	Retirement Services	Total AIG Life and Retirement
Three Months Ended September 30, 2012			
Total revenues	$ 2,663	$ 1,867	$ 4,530
Pre-tax income	553	336	889
Three Months Ended September 30, 2011			
Total revenues	$ 2,134	$ 1,448	$ 3,582
Pre-tax income (loss)	472	(126)	346
Nine Months Ended September 30, 2012			
Total revenues	$ 7,306	$ 5,133	$ 12,439
Pre-tax income	1,714	814	2,528
Nine Months Ended September 30, 2011			
Total revenues	$ 6,242	$ 5,075	$ 11,317
Pre-tax income	1,174	905	2,079

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 September 30, 2012							
Total revenues	$ 218	$ 235	$ 506	$ 857	$ 412	$ (15)	$ 2,213
Pre-tax income (loss)	6	190	406	857	(566)	(2)	891
Three Months Ended September 30, 2011							
Total revenues	$ 246	$ (130)	$ 159	$ (3,246)	$ 561	$ (23)	$ (2,433)
Pre-tax income (loss)	(82)	(187)	103	(3,246)	(523)	(10)	(3,945)
Nine Months Ended September 30, 2012							
Total revenues	$ 642	$ 405	$ 1,434	$ 4,717	$ 925	$ (38)	$ 8,085
Pre-tax income (loss)	62	253	1,139	4,717	(2,659)	(1)	3,511
Nine Months Ended September 30, 2011							
Total revenues	$ 716	$ 151	$ 758	$ (743)	$ 1,030	$ (48)	$ 1,864
Pre-tax income (loss)	(68)	(66)	586	(743)	(5,538)	(26)	(5,855)

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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 consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

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

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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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 observability of the inputs used:

September 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	$ 28	$ 4,380	$	$	$	$ 4,408
Obligations of states, municipalities and political subdivisions		35,360	1,104			36,464
Non-U.S. governments	742	25,542	14			26,298
Corporate debt		148,528	1,612			150,140
RMBS		23,692	11,488			35,180
CMBS		4,469	5,013			9,482
CDO/ABS		3,293	4,649			7,942
Total bonds available for sale	770	245,264	23,880			269,914
Bond trading securities:						
U.S. government and government sponsored entities	302	7,406				7,708
Obligations of states, municipalities and political subdivisions		81				81
Non-U.S. governments		2				2
Corporate debt		1,316	2			1,318
RMBS		1,101	370			1,471
CMBS		1,490	612			2,102
CDO/ABS		3,650	8,505			12,155
Total bond trading securities	302	15,046	9,489			24,837
Equity securities available for sale:						
Common stock	2,781	1	40			2,822
Preferred stock		48	45			93
Mutual funds	86	20				106
Total equity securities available for sale	2,867	69	85			3,021
Equity securities trading	17	81				98

Mortgage and other loans receivable		129	1			130
Other invested assets(c)	6,257	1,706	7,070			15,033
Derivative assets:						
Interest rate contracts	11	6,278	996			7,285
Foreign exchange contracts		53				53
Equity contracts	113	98	53			264
Commodity contracts		141	1			142
Credit contracts		1	59			60
Other contracts		11	57			68
Counterparty netting and cash collateral				(3,219)	(1,197)	(4,416)
Total derivative assets	124	6,582	1,166	(3,219)	(1,197)	3,456
Short-term investments	592	6,708				7,300
Separate account assets	53,829	2,911				56,740
Other assets		698				698
Total	$ 64,758	$ 279,194	$ 41,691	$ (3,219)	$ (1,197)	$ 381,227
Liabilities:						
Policyholder contract deposits	$	$	$ 1,308	$	$	$ 1,308
Derivative liabilities:						
Interest rate contracts		6,303	243			6,546
Foreign exchange contracts		166				166
Equity contracts	2	159	10			171
Commodity contracts		143				143
Credit contracts(d)			2,349			2,349
Other contracts		26	250			276
Counterparty netting and cash collateral				(3,219)	(2,118)	(5,337)
Total derivative liabilities	2	6,797	2,852	(3,219)	(2,118)	4,314
Other long-term debt(e)		8,428	407			8,835
Other liabilities	138	792				930
Total	$ 140	$ 16,017	$ 4,567	$ (3,219)	$ (2,118)	$ 15,387

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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	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
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(d)		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(e)		10,258	508			10,766
Other liabilities	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 $1.8 billion and $177 million, respectively, at September 30, 2012 and $1.8 billion and $100 million, respectively, at December 31, 2011.

(c) Included in Level 1 are $6.1 billion and $12.4 billion at September 30, 2012 and December 31, 2011, respectively, of AIA ordinary shares publicly traded on the Hong Kong Stock Exchange.

(d) Included in Level 3 is the fair value derivative liability of $2.3 billion and $3.2 billion at September 30, 2012 and December 31, 2011, respectively, on the super senior credit default swap portfolio.

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

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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 nine-month periods ended September 30, 2012, AIG transferred $148 million and $284 million of securities issued by Non-U.S. government entities from Level 1 to Level 2, respectively, as they are no longer considered actively traded. For similar reasons, during the three- and nine-month periods ended September 30, 2012, AIG transferred $743 million of securities issued by the U.S. government and government-sponsored entities from Level 1 to Level 2. AIG had no material transfers from Level 2 to Level 1 during the three- and nine-month periods ended September 30, 2012.

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-and nine-month periods ended September 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 September 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 September 30, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 1,013	$ 16	$	$ 102	$ 25	$ (52)	$ 1,104	$
Non-U.S. governments	13	1	(1)	2		(1)	14	
Corporate debt	1,306	10	35	94	233	(66)	1,612	
RMBS	10,488	197	1,029	(678)	566	(114)	11,488	
CMBS	4,643	(17)	271	115	1		5,013	
CDO/ABS	5,074	87	82	(129)	63	(528)	4,649	
Total bonds available for sale	22,537	294	1,416	(494)	888	(761)	23,880	
Bond trading securities:								

Corporate debt	3			(1)			2	
RMBS	290	40		(56)	97	(1)	370	12
CMBS	457	(3)		1	157		612	(19)
CDO/ABS	14,647	581		(6,780)	57		8,505	427
Total bond trading securities	15,397	618		(6,836)	311	(1)	9,489	420
Equity securities available for sale:								
Common stock	41		(1)				40	
Preferred stock	139	15	(12)	(104)	8	(1)	45	
Total equity securities available for sale	180	15	(13)	(104)	8	(1)	85	
Mortgage and other loans receivable	1						1	
Other invested assets	7,049	22	8	(90)	126	(45)	7,070	
Total	$ 45,164	$ 949	$ 1,411	$ (7,524)	$ 1,333	$ (808)	$ 40,525	$ 420

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
Liabilities:								
Policyholder contract deposits	$ (1,188)	$ (45)	$ (72)	$ (3)	$	$	$ (1,308)	$ 279
Derivative liabilities, net:								
Interest rate contracts	761	(55)		47			753	11
Foreign exchange contracts								
Equity contracts	28	18		(4)	1		43	
Commodity contracts	2	4		(3)		(2)	1	(1)
Credit contracts	(2,587)	208		89			(2,290)	(360)
Other contracts	(154)	(122)	(6)	73	16		(193)	14
Total derivative liabilities, net	(1,950)	53	(6)	202	17	(2)	(1,686)	(336)
Other long-term debt(b)	(407)	(27)		61	(34)		(407)	170
Total	$ (3,545)	$ (19)	$ (78)	$ 260	$ (17)	$ (2)	$ (3,401)	$ 113
Nine Months Ended September 30, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 960	$ 48	$ 11	$ 139	$ 70	$ (124)	$ 1,104	$
Non-U.S. governments	9	1			5	(1)	14	
Corporate debt	1,935	(7)	104	96	579	(1,095)	1,612	
RMBS	10,877	322	1,832	32	921	(2,496)	11,488	
CMBS	3,955	(84)	572	618	44	(92)	5,013	
CDO/ABS	4,220	127	348	(150)	669	(565)	4,649	
Total bonds available for sale	21,956	407	2,867	735	2,288	(4,373)	23,880	
Bond trading securities:								
Corporate debt	7			(5)			2	
RMBS	303	68		(94)	97	(4)	370	18
CMBS	554	46		(121)	193	(60)	612	45

CDO/ABS	8,432	3,646		(3,630)	57		8,505	2,635
Total bond trading securities	9,296	3,760		(3,850)	347	(64)	9,489	2,698
Equity securities available for sale:								
Common stock	57	23	(13)	(33)	6		40	
Preferred stock	99	17	(35)	(35)	11	(12)	45	
Total equity securities available for sale	156	40	(48)	(68)	17	(12)	85	
Mortgage and other loans receivable	1						1	
Other invested assets	6,618	(157)	284	(57)	886	(504)	7,070	
Total	$ 38,027	$ 4,050	$ 3,103	$ (3,240)	$ 3,538	$ (4,953)	$ 40,525	$ 2,698
Liabilities:								
Policyholder contract deposits	$ (918)	$ (314)	$ (72)	$ (4)	$	$	$ (1,308)	$ 135
Derivative liabilities, net:								
Interest rate contracts	785	(9)		(23)			753	(37)
Foreign exchange contracts	2			(2)				
Equity contracts	28	7		9	(1)		43	
Commodity contracts	2	4		(5)			1	
Credit contracts	(3,273)	409		574			(2,290)	(880)
Other contracts	33	(110)	(4)	(5)	(107)		(193)	53
Total derivative liabilities, net	(2,423)	301	(4)	548	(108)		(1,686)	(864)
Other long-term debt(b)	(508)	(405)	(77)	197	(34)	420	(407)	224
Total	$ (3,849)	$ (418)	$ (153)	$ 741	$ (142)	$ 420	$ (3,401)	$ (505)

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 September 30, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 800	$ 1	$ 83	$ 74	$	$ (50)	$ 908	$
Non-U.S. governments	5		(1)	1			5	
Corporate debt	1,844	13	(21)	(56)	1,170	(475)	2,475	
RMBS	10,692	(83)	29	(437)	254	(47)	10,408	
CMBS	4,228	(46)	(293)	134	16	(64)	3,975	
CDO/ABS	3,925	12	(131)	220	329	(238)	4,117	
Total bonds available for sale	21,494	(103)	(334)	(64)	1,769	(874)	21,888	
Bond trading securities:								
Corporate debt	9			(1)			8	
RMBS	170	(5)	(1)	168			332	(20)
CMBS	483	(31)	(4)	(16)	115		547	2
CDO/ABS	9,503	(993)	(9)	(131)	48	(24)	8,394	(1,340)
Total bond trading securities	10,165	(1,029)	(14)	20	163	(24)	9,281	(1,358)
Equity securities available for sale:								
Common stock	59	9	(9)	(11)	10	(2)	56	
Preferred stock	64	2	2		2		70	
Total equity securities available for sale	123	11	(7)	(11)	12	(2)	126	
Equity securities trading	1	(1)						

Other invested assets	7,045	(27)	42	(54)	205	(27)	7,184	
Total	$ 38,828	$ (1,149)	$ (313)	$ (109)	$ 2,149	$ (927)	$ 38,479	$ (1,358)
Liabilities:								
Policyholder contract deposits	$ (406)	$ (928)	$	$ (28)	$	$	$ (1,362)	$ 950
Derivative liabilities, net:								
Interest rate contracts	754	47		9		(21)	789	(61)
Foreign exchange contracts	4	1		(5)				
Equity contracts	34	(10)					24	(7)
Commodity contracts	5	(1)		(1)			3	(1)
Credit contracts	(3,332)	(25)		(5)			(3,362)	398
Other contracts	(69)	32	(32)	9		99	39	(121)
Total derivatives liabilities, net	(2,604)	44	(32)	7		78	(2,507)	208
Other long-term debt(b)	(958)	183		(14)			(789)	349
Total	$ (3,968)	$ (701)	$ (32)	$ (35)	$	$ 78	$ (4,658)	$ 1,507

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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
Nine Months Ended September 30, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 609	$	$ 110	$ 248	$ 17	$ (76)	$ 908	$
Non-U.S. governments	5		(1)	1			5	
Corporate debt	2,262	10	1	216	1,703	(1,717)	2,475	
RMBS	6,367	(85)	397	3,506	276	(53)	10,408	
CMBS	3,604	(80)	262	206	69	(86)	3,975	
CDO/ABS	4,241	44	181	(617)	775	(507)	4,117	
Total bonds available for sale	17,088	(111)	950	3,560	2,840	(2,439)	21,888	
Bond trading securities:								
Corporate debt				(10)	18		8	
RMBS	91	(5)	(8)	254			332	(15)
CMBS	506	35	(1)	(92)	276	(177)	547	31
CDO/ABS	9,431	(840)		(221)	48	(24)	8,394	(770)
Total bond trading securities	10,028	(810)	(9)	(69)	342	(201)	9,281	(754)
Equity securities available for sale:								
Common stock	61	27	(5)	(38)	18	(7)	56	
Preferred stock	64	(1)	3		4		70	
Total equity securities available for sale	125	26	(2)	(38)	22	(7)	126	
Equity securities trading	1			(1)				

Other invested assets	7,414	9	511	(565)	250	(435)	7,184	
Total	$ 34,656	$ (886)	$ 1,450	$ 2,887	$ 3,454	$ (3,082)	$ 38,479	$ (754)
Liabilities:								
Policyholder contract deposits	$ (445)	$ (882)	$	$ (35)	$	$	$ (1,362)	$ 887
Derivative liabilities, net:								
Interest rate contracts	732	69		9		(21)	789	(55)
Foreign exchange contracts	16	(11)		(5)				
Equity contracts	22	(17)		38	(7)	(12)	24	(14)
Commodity contracts	23	1		(21)			3	(1)
Credit contracts	(3,798)	451		(15)			(3,362)	446
Other contracts	(112)	9	(58)	49		151	39	(87)
Total derivatives liabilities, net	(3,117)	502	(58)	55	(7)	118	(2,507)	289
Other long-term debt(b)	(982)	(28)		242	(21)		(789)	(31)
Total	$ (4,544)	$ (408)	$ (58)	$ 262	$ (28)	$ 118	$ (4,658)	$ 1,145

(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 September 30, 2012				
Bonds available for sale	**$ 218**	**$ 51**	**$ 25**	**$ 294**
Bond trading securities	**491**		**127**	**618**
Equity securities		**15**		**15**
Other invested assets	**6**	**(16)**	**32**	**22**
Policyholder contract deposits		**(45)**		**(45)**
Derivative liabilities, net		**(39)**	**92**	**53**
Other long-term debt			**(27)**	**(27)**
Three Months Ended September 30, 2011				
Bonds available for sale	$ 193	$ (300)	$ 4	$ (103)
Bond trading securities	(1,333)	4	300	(1,029)
Equity securities	(1)	11		10
Other invested assets	(13)	(29)	15	(27)
Policyholder contract deposits		(928)		(928)
Derivative liabilities, net	1	54	(11)	44
Other long-term debt			183	183
Nine Months Ended September 30, 2012				
Bonds available for sale	**$ 683**	**$ (333)**	**$ 57**	**$ 407**
Bond trading securities	**3,330**		**430**	**3,760**
Equity securities		**40**		**40**
Other invested assets	**(3)**	**(189)**	**35**	**(157)**
Policyholder contract deposits		**(314)**		**(314)**
Derivative liabilities, net	**(1)**	**22**	**280**	**301**
Other long-term debt			**(405)**	**(405)**
Nine Months Ended September 30, 2011				
Bonds available for sale	$ 433	$ (556)	$ 12	$ (111)
Bond trading securities	(828)	4	14	(810)
Equity securities		26		26
Other invested assets	31	(81)	59	9
Policyholder contract deposits		(882)		(882)
Derivative liabilities, net	2	7	493	502
Other long-term debt			(28)	(28)

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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 September 30, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 189	$ (53)	$ (34)	$ 102
Non-U.S. governments	3		(1)	2
Corporate debt	139	(6)	(39)	94
RMBS	198	(360)	(516)	(678)
CMBS	299	(127)	(57)	115
CDO/ABS	210		(339)	(129)
Total bonds available for sale	1,038	(546)	(986)	(494)
Bond trading securities:				
Corporate debt			(1)	(1)
RMBS		(45)	(11)	(56)
CMBS	11		(10)	1
CDO/ABS(b)	2,191	(6)	(8,965)	(6,780)
Total bond trading securities	2,202	(51)	(8,987)	(6,836)
Equity securities		(22)	(82)	(104)
Other invested assets	129	(30)	(189)	(90)
Total assets	$ 3,369	$ (649)	$ (10,244)	$ (7,524)
Liabilities:				
Policyholder contract deposits	$	$ (6)	$ 3	$ (3)
Derivative liabilities, net	6		196	202
Other long-term debt(c)			61	61
Total liabilities	$ 6	$ (6)	$ 260	$ 260
Three Months Ended September 30, 2011				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political	$ 78	$	$ (4)	$ 74

subdivisions				
Non-U.S. governments			1	1
Corporate debt	58	(27)	(87)	(56)
RMBS	(11)		(426)	(437)
CMBS	178		(44)	134
CDO/ABS	405		(185)	220
Total bonds available for sale	708	(27)	(745)	(64)
Bond trading securities:				
Corporate debt			(1)	(1)
RMBS	197		(29)	168
CMBS	79	(90)	(5)	(16)
CDO/ABS	101	(93)	(139)	(131)
Total bond trading securities	377	(183)	(174)	20
Equity securities		(8)	(3)	(11)
Other invested assets	156	(59)	(151)	(54)
Total assets	$ 1,241	$ (277)	$ (1,073)	$ (109)
Liabilities:				
Policyholder contract deposits	$	$ (32)	$ 4	$ (28)
Derivative liabilities, net	1		6	7
Other long-term debt(c)			(14)	(14)
Total liabilities	$ 1	$ (32)	$ (4)	$ (35)

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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)]
Nine Months Ended September 30, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 394	$ (219)	$ (36)	$ 139
Non-U.S. governments	4	(3)	(1)	
Corporate debt	280	(59)	(125)	96
RMBS	2,308	(722)	(1,554)	32
CMBS	1,021	(260)	(143)	618
CDO/ABS	730	(4)	(876)	(150)
Total bonds available for sale	4,737	(1,267)	(2,735)	735
Bond trading securities:				
Corporate debt			(5)	(5)
RMBS		(45)	(49)	(94)
CMBS	194	(106)	(209)	(121)
CDO/ABS(b)	7,216	(6)	(10,840)	(3,630)
Total bond trading securities	7,410	(157)	(11,103)	(3,850)
Equity securities	67	(55)	(80)	(68)
Other invested assets	529	(63)	(523)	(57)
Total assets	$ 12,743	$ (1,542)	$ (14,441)	$ (3,240)
Liabilities:				
Policyholder contract deposits	$	$ (20)	$ 16	$ (4)
Derivative liabilities, net	8		540	548
Other long-term debt(c)			197	197
Total liabilities	$ 8	$ (20)	$ 753	$ 741
Nine Months Ended September 30, 2011				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 254	$	$ (6)	$ 248

Non-U.S. governments	1	(1)	1	1
Corporate debt	478	(27)	(235)	216
RMBS	4,613	(22)	(1,085)	3,506
CMBS	419	(20)	(193)	206
CDO/ABS	666		(1,283)	(617)
Total bonds available for sale	6,431	(70)	(2,801)	3,560
Bond trading securities:				
Corporate debt			(10)	(10)
RMBS	300		(46)	254
CMBS	139	(144)	(87)	(92)
CDO/ABS	245	(219)	(247)	(221)
Total bond trading securities	684	(363)	(390)	(69)
Equity securities		(31)	(8)	(39)
Other invested assets	506	(217)	(854)	(565)
Total assets	$ 7,621	$ (681)	$ (4,053)	$ 2,887
Liabilities:				
Policyholder contract deposits	$	$ (51)	$ 16	$ (35)
Derivative liabilities, net	40		15	55
Other long-term debt(c)			242	242
Total liabilities	$ 40	$ (51)	$ 273	$ 262

(a) There were no issuances during the three- and nine-month periods ended September 30, 2012 and 2011.

(b) Includes securities with a fair value of approximately $7.1 billion purchased through the FRBNY's auction of Maiden Lane III LLC (ML III) assets.

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

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at September 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 $80 million of net losses and $127 million of net gains related to assets and liabilities transferred into Level 3 during the three- and nine-month periods ended September 30, 2012, respectively, and includes $29 million and $83 million of net gains related to assets and liabilities transferred out of Level 3 during the three- and nine-month periods ended September 30, 2012, respectively.

Transfers of Level 3 Assets

During the three- and nine-month periods ended September 30, 2012, transfers into Level 3 included certain residential mortgage-backed securities (RMBS), commercial mortgage backed securities (CMBS), 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 and CMBS 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 nine-month periods ended September 30, 2012, transfers out of Level 3 primarily related to certain RMBS, ABS, 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 ABS and 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 nine-month periods ended September 30, 2012, primarily related to certain derivative

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American International Group, Inc.

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assets transferred out of Level 3 because of the presence of observable inputs on certain forward commitments and options. During the three- and nine-month periods ended September 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 September 30,		Nine Months Ended September 30,	
(in millions)	Level 1	Level 2	Level 3	Total	2012	2011	2012	2011
September 30, 2012								
Investment real estate	$	$	$ 311	$ 311	$	$	$	$ 15
Other investments			1,534	1,534	97	181	273	526
Aircraft*			324	324	98	1,518	227	1,676
Other assets		1	18	19			9	
Total	$	$ 1	$ 2,187	$ 2,188	$ 195	$ 1,699	$ 509	$ 2,217
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.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

Quantitative Information About Level 3 Fair Value Measurements

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to 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 September 30, 2012	Valuation Technique	Unobservable Input[(a)]	Range (Weighted Average)[(a)]
Assets:				
Corporate debt	$ 826	Discounted cash flow	Yield(b)	1.85% - 8.95% (5.40%)
Residential mortgage backed securities	10,867	Discounted cash flow	Constant prepayment rate(c)	0.00% - 10.58% (4.99%)
			Loss severity(c)	40.07% - 78.97% (59.52%)
			Constant default rate(c)	3.61% - 13.01% (8.31%)
			Yield(c)	2.69% - 9.53% (6.11%)
Certain CDO/ABS	1,866	Discounted cash flow	Constant prepayment rate(c)	0.00% - 39.55% (12.87%)
			Loss severity(c)	0.00% - 9.20% (0.78%)
			Constant default rate(c)	0.00% - 1.19% (0.13%)
			Yield(c)	0.84% - 4.85% (2.85%)
Commercial mortgage backed securities	3,051	Discounted cash flow	Yield(b)	0.00% - 27.34% (10.14%)
CDO/ABS Direct Investment Book	1,290	Binomial Expansion Technique (BET)	Recovery rate(b)	3% - 65%
			Diversity score(b)	4 - 37 (14)
			Weighted average life(b)	1.12 - 9.17 years (4.57 years)
Liabilities:				
Policyholder contract deposits GMWB	1,005	Discounted cash flow	Equity implied volatility(b)	6.0% - 40.0%
			Base lapse rates(b)	1.00% - 40.0%
			Dynamic lapse rates(b)	0.2% - 60.0%
			Mortality rates(b)	0.5% - 40.0%
			Utilization rates(b)	0.5% - 25.0%

Derivative Liabilities	Credit contracts	1,600	BET	Recovery rates(b)	3% - 36% (16%)
				Diversity score(b)	8 - 31 (13)
				Weighted average life(b)	5.02 - 8.40 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 plus/minus 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.

		September 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	$ 3,223	$ 821	$ 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	173	31	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	309	32	316	39

	company				
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	172	37	182	42
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies	364	145	252	98
Total private equity funds		4,241	1,066	4,100	1,181
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	894	2	774	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	1,139		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	248		173	
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	367		272	10
Other	Non-U.S. companies, futures and commodities, relative value, and multi-strategy and industry-focused strategies	604		627	
Total hedge funds		3,252	2	2,773	12
Total		$ 7,493	$ 1,068	$ 6,873	$ 1,193

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Private equity fund investments included above are not redeemable, as distributions from the funds will be received when underlying investments of the funds are liquidated. Private equity funds are generally expected to have 10-year lives at their inception, but these lives may be extended at the fund manager's discretion, typically in one or two year increments. At September 30, 2012, assuming average original expected lives of 10 years for the funds, 42 percent of the total fair value using net asset value or its equivalent above would have expected remaining lives of less than three years, 56 percent between three and seven years and 2 percent between seven and 10 years.

At September 30, 2012, hedge fund investments included above are redeemable monthly (11 percent), quarterly (31 percent), semi-annually (24 percent) and annually (34 percent), with redemption notices ranging from one day to 180 days. More than 60 percent of these hedge fund investments require redemption notices of less than 90 days. Investments representing approximately 54 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions 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:

	Gain (Loss) Three Months Ended September 30,		Gain (Loss) Nine Months Ended September 30,	
(in millions)	2012	2011	2012	2011
Assets:				
Mortgage and other loans receivable	**$ 10**	$ (3)	**$ 41**	$ (2)
Bonds and equity securities	**875**	(138)	**1,782**	1,299
Trading ML II interest		(43)	**246**	32
Trading ML III interest	**330**	(931)	**2,888**	(854)
Retained interest in AIA	**527**	(2,315)	**1,829**	268
Other, including Short-term investments	**14**	12	**27**	40
Liabilities:				
Other long-term debt[(a)]	**(86)**	(265)	**(750)**	(821)
Other liabilities	**(9)**	84	**(31)**	(91)
Total gain (loss)[(b)]	**$ 1,661**	$ (3,599)	**$ 6,032**	$ (129)

(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. For instruments required to be carried at fair value, AIG recognized gains of $110 million and $664 million for the three and nine months ended September 30, 2012, respectively, and losses of $102 million and gains of $819 million for the three and nine months ended September 30, 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 $126 million of loss and $621 million of loss during the three-and nine-month periods ended September 30, 2012, respectively, and gain of $459 million and $475 million during the three- and nine-month periods ended September 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.

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

	September 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	**$ 130**	**$ 140**	**$ (10)**	$ 107	$ 150	$ (43)
Liabilities:						
Other long-term debt*	**$ 8,835**	**$ 6,483**	**$ 2,352**	$ 10,766	$ 8,624	$ 2,142

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

At September 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.

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. On September 11, 2012, AIG sold approximately 600 million ordinary shares of AIA for gross proceeds of approximately $2.0 billion. As a result of these sales, AIG's retained interest in AIA decreased from approximately 33 percent with a total carrying value of $12.4 billion at December 31, 2011 to approximately 14 percent with a total carrying value of $6.1 billion at September 30, 2012.

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
September 30, 2012					
Assets:					
Mortgage and other loans receivable	**$**	**$ 549**	**$ 20,099**	**$ 20,648**	**$ 19,200**
Other invested assets		**209**	**3,451**	**3,660**	**4,947**
Short-term investments		**15,257**		**15,257**	**15,257**
Cash	**1,608**			**1,608**	**1,608**
Liabilities:					

Policyholder contract deposits associated with investment-type contracts		**138**	**126,671**	**126,809**	**107,119**
Other liabilities		**1,843**	**831**	**2,674**	**2,676**
Long-term debt	**18,229**	**50,605**	**1,792**	**70,626**	**64,913**
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)]
September 30, 2012					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 4,049	$ 359	$	$ 4,408	$
Obligations of states, municipalities and political subdivisions	33,716	2,799	(51)	36,464	(23)
Non-U.S. governments	24,900	1,441	(43)	26,298	
Corporate debt	134,977	15,755	(592)	150,140	125
Mortgage-backed, asset-backed and collateralized:					
RMBS	32,343	3,231	(394)	35,180	1,109
CMBS	9,258	738	(514)	9,482	(112)
CDO/ABS	7,447	737	(242)	7,942	90
Total mortgage-backed, asset-backed and collateralized	49,048	4,706	(1,150)	52,604	1,087
Total bonds available for sale(b)	246,690	25,060	(1,836)	269,914	1,189
Equity securities available for sale:					
Common stock	1,517	1,355	(50)	2,822	
Preferred stock	65	28		93	
Mutual funds	94	12		106	
Total equity securities available for sale	1,676	1,395	(50)	3,021	
Other invested assets carried at fair value(c)	6,491	1,756	(25)	8,222	
Total	$ 254,857	$ 28,211	$ (1,911)	$ 281,157	$ 1,189

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 September 30, 2012 and December 31, 2011, bonds available for sale held by AIG that were below investment grade or not rated totaled $28.9 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
September 30, 2012						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 68	$	$	$	$ 68	$
Obligations of states, municipalities and political subdivisions	457	30	197	21	654	51
Non-U.S. governments	1,067	14	512	29	1,579	43
Corporate debt	6,383	168	5,121	424	11,504	592
RMBS	659	14	2,012	380	2,671	394
CMBS	193	28	1,786	486	1,979	514
CDO/ABS	143	3	1,779	239	1,922	242
Total bonds available for sale	8,970	257	11,407	1,579	20,377	1,836
Equity securities available for sale:						
Common stock	313	45	37	5	350	50
Preferred stock						
Mutual funds	4		1		5	
Total equity securities available for sale	317	45	38	5	355	50
Total	$ 9,287	$ 302	$ 11,445	$ 1,584	$ 20,732	$ 1,886
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

At September 30, 2012, AIG held 3,444 and 254 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,679 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 September 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.

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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:

September 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	$ 11,080	$ 11,289	$ 837	$ 830
Due after one year through five years	54,288	57,505	4,143	4,009
Due after five years through ten years	70,835	78,191	4,058	3,845
Due after ten years	61,439	70,325	5,453	5,121
Mortgage-backed, asset-backed and collateralized	49,048	52,604	7,722	6,572
Total	$ 246,690	$ 269,914	$ 22,213	$ 20,377

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 September 30,				Nine Months Ended September 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 maturity securities	**$ 943**	**$ 82**	$ 612	$ 11	**$ 2,308**	**$ 121**	$ 1,462	$ 104
Equity securities	**38**	**22**	30	10	**503**	**26**	178	18
Total	**$ 981**	**$ 104**	$ 642	$ 21	**$ 2,811**	**$ 147**	$ 1,640	$ 122

For the three- and nine-month periods ended September 30, 2012, the aggregate fair value of available for sale securities sold was $8.8 billion and $30.3 billion, respectively, which resulted in net realized capital gains of $0.9 billion, and $2.7 billion, respectively. For the three- and nine-month periods ended September 30, 2011, the aggregate fair value of available for sale securities sold was $9.0 billion and $33.1 billion, respectively, which resulted in net realized capital gains of $621 million and $1.5 billion, respectively.

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Trading Securities

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

(in millions)	September 30, 2012 Fair Value	Percent of Total	December 31, 2011 Fair Value	Percent of Total
Fixed maturities:				
U.S. government and government sponsored entities	$ 7,708	31%	$ 7,504	31%
Non-U.S. governments	2		35	
Corporate debt	1,318	5	816	3
State, territories and political subdivisions	81		257	1
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,471	6	1,648	7
CMBS	2,102	9	1,837	7
CDO/ABS and other collateralized*	12,147	49	5,282	22
Total mortgage-backed, asset-backed and collateralized	15,720	64	8,767	36
ML II			1,321	5
ML III	8		5,664	23
Total fixed maturities	24,837	100	24,364	99
Equity securities	98		125	1
Total	$ 24,935	100%	$ 24,489	100%

* Includes securities with a fair value of approximately $7.1 billion purchased through the FRBNY's auction of ML III assets.

Maiden Lane III

The FRBNY completed the liquidation of ML III assets during the third quarter of 2012 and substantially all of the sales proceeds have been distributed in accordance with the priority of payments of the transaction. In the three-and nine-month periods ended September 30, 2012, AIG received total payments of approximately $8.47 billion and $8.54 billion, respectively, which included contractual and additional distributions and AIG's original $5.0 billion equity interest in ML III.

Through the nine months ended September 30, 2012, AIG purchased securities with a fair value of approximately $7.1 billion through the FRBNY's auction of ML III assets.

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.

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Credit Impairments

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2012**	**2011**	**2012**	**2011**
Balance, beginning of period	**$ 6,090**	$ 6,396	**$ 6,504**	$ 6,786
Increases due to:				
Credit impairments on new securities subject to impairment losses		169	**172**	254
Additional credit impairments on previously impaired securities	**45**	222	**421**	457
Reductions due to:				
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(297)**	(133)	**(815)**	(458)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	**(5)**		**(5)**	
Accretion on securities previously impaired due to credit*	**(215)**	(148)	**(668)**	(355)
Hybrid securities with embedded credit derivatives reclassified to Bond trading securities				(179)
Other	**(3)**		**6**	1
Balance, end of period	**$ 5,615**	$ 6,506	**$ 5,615**	$ 6,506

* 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 for these PCI securities, including both principal and interest and considering the effects of prepayments. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security was determined based on 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.

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

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

(in millions)		At Date of Acquisition
Contractually required payments (principal and interest)	$	18,315
Cash flows expected to be collected*		14,286
Recorded investment in acquired securities		9,128

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

(in millions)		September 30, 2012		December 31, 2011
Outstanding principal balance	**$**	**11,957**	$	10,119
Amortized cost		**7,743**		7,006
Fair value		**8,734**		6,535

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)		2012		2011		2012		2011
Balance, beginning of period	**$**	**4,950**	$	2,276	**$**	**4,135**	$	
Newly purchased PCI securities		**114**		306		**1,532**		2,688
Disposals		**(130)**				**(298)**		
Accretion		**(165)**		(119)		**(510)**		(194)
Effect of changes in interest rate indices		**(39)**		(46)		**(200)**		(54)
Net reclassification (to) from non-accretable difference, including effects of prepayments		**53**		(93)		**124**		(116)
Balance, end of period	**$**	**4,783**	$	2,324	**$**	**4,783**	$	2,324

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.

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 $6.3 billion and $2.3 billion at September 30, 2012 and December 31, 2011, respectively, and trading securities with a fair value of $2.4 billion and $2.8 billion at September 30, 2012 and December 31, 2011, respectively, were pledged to counterparties.

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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. There were no repurchase agreements accounted for as sales as of September 30, 2012. The fair value of securities transferred under repurchase agreements accounted for as sales was $ 2.1 billion at December 31, 2011.

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 $7.5 billion and $6.8 billion at September 30, 2012 and December 31, 2011, respectively, of which $1.7 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 $9.0 billion and $9.8 billion at September 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 $84 million and $77 million of stock in FHLBs at September 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 $95 million at September 30, 2012, associated with advances from the FHLBs.

Certain GIAs have provisions that require collateral to be posted or payments to be made 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 $4.7 billion and $5.1 billion at September 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.

6. LENDING ACTIVITIES

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

(in millions)	September 30, 2012	December 31, 2011

Commercial mortgages*	$	**13,679**	$	13,554
Life insurance policy loans		**2,962**		3,049
Commercial loans, other loans and notes receivable		**3,177**		3,626
Total mortgage and other loans receivable		**19,818**		20,229
Allowance for losses		**(488)**		(740)
Mortgage and other loans receivable, net	$	**19,330**	$	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 (aggregating approximately 23 percent and 15 percent at September 30, 2012 and December 31, 2011, respectively). Over 99 percent of the commercial mortgages were current as to payments of principal and interest at September 30, 2012 and December 31, 2011.

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

September 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	1,000	$ 1,582	$ 4,808	$ 2,577	$ 1,795	$ 1,064	$ 1,383	$ 13,209	97%
Restructured(a)	8	49	206	7	8		22	292	2
90 days or less delinquent	2			26				26	
90 days delinquent or in process of foreclosure	15		64	1			87	152	1
Total(b)	1,025	$ 1,631	$ 5,078	$ 2,611	$ 1,803	$ 1,064	$ 1,492	$ 13,679	100%
Valuation allowance		$ 5	$ 99	$ 17	$ 28	$ 1	$ 43	$ 193	1%

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

(b) Does not reflect valuation allowances.

Allowance for Credit Losses

See Note 8 to the Consolidated Financial Statements in the 2011 Annual Report for a discussion of AIG's accounting policy for evaluating mortgage and other loans receivable for impairment.

Nine Months Ended September 30, *(in millions)*	2012	2011