AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 21, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 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

Securities registered pursuant to Section 12(b) of the Act: See Exhibit 99.02

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 Act). Yes o No þ

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $21,463,000,000.

As of February 15, 2013, there were outstanding 1,476,322,473 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2013 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

AMERICAN INTERNATIONAL GROUP, INC.
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PART I

ITEM 1 / BUSINESS

American International Group, Inc. (AIG) is a leading global insurance company. Founded in 1919, today we provide a wide range of property casualty insurance, life insurance, retirement products, mortgage insurance and other financial services to customers in more than 130 countries. Our diverse offerings include products and services that help businesses and individuals protect their assets, manage risks and provide for retirement security. AIG common stock is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

AIG's key strengths include:

World class insurance franchises that are leaders in their categories and are improving their operating performance;

A diverse mix of businesses with a presence in most international markets;

Effective capital management of the largest shareholders' equity of any insurance company in the world*, supported by enhanced risk management;

Execution of strategic objectives, such as the recent divestiture of non-core businesses and fulfillment of our commitment to repay the U.S. taxpayers; and

Improved profitability, as demonstrated by three consecutive years of full-year profit.

* At June 30, 2012, the latest date for which information was available for certain foreign insurance companies.

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

A reference summary of certain technical terms and acronyms used throughout this Annual Report on Form 10-K is available on pages 195-199.

AIG's Global Insurance Operations

HOW WE GENERATE REVENUES AND PROFITABILITY

We earn revenues primarily from insurance premiums, policy fees from universal life insurance and investment products, and income from investments.

Our operating expenses consist of policyholder benefits and claims incurred, interest credited to policyholders, commissions and other costs of selling and servicing our products, and general business expenses.

Our profitability is dependent on our ability to price and manage risk on insurance and annuity products, to manage our portfolio of investments effectively, and control costs through expense discipline.

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 in certain geographies and market segments.

AIG Property Casualty

AIG Property Casualty is a leading provider of insurance products for commercial, institutional and individual customers through one of the world's most far-reaching property casualty networks. AIG Property Casualty offers one of the industry's most extensive ranges of products and services, through its diversified, multichannel distribution network, benefitting from its strong capital position.

AIG Life and Retirement

AIG Life and Retirement is a premier provider of life insurance and retirement services in the United States. It is among the largest life insurance and retirement services businesses in the United States. With one of the broadest distribution networks and most diverse product offerings in the industry, AIG Life and Retirement helps to ensure financial and retirement security for more than 18 million customers.

Other Operations

Mortgage Guaranty (United Guaranty Corporation or UGC), is a leading provider of private residential mortgage guaranty insurance (MI). MI covers mortgage lenders for the first loss from mortgage defaults on high loan-to-value conventional first-lien mortgages. By providing this coverage to lenders, UGC enables mortgage lenders to remain competitive, while generating a sound and responsible book of business, and enables individuals to purchase a house with a lower down payment.
Other operations also include Global Capital Markets, Direct Investment book, Retained Interests and Corporate & Other operations.
On December 9, 2012, AIG announced an agreement to sell 80.1 percent of International Lease Finance Corporation (ILFC) with an option for the purchaser to buy an additional 9.9 percent stake. As a result, ILFC operating results, which were previously presented in the Aircraft Leasing segment, have been classified as discontinued operations in all periods, and associated assets and liabilities have been classified as held-for-sale at December 31, 2012.

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AIG 2012 Revenue Sources ($ millions)

For financial information concerning our reportable segments, including geographic areas of operation and changes made in 2012, see Note 3 to the Consolidated Financial Statements. Prior periods have been revised to conform to the current period presentation for segment changes and discontinued operations.

Restructuring and Rebuilding: AIG Moving Forward

We have taken significant steps to position our company for future growth and in 2012 fully repaid governmental financial support of AIG. These amounts are discussed below in 2011-2012 Accomplishments.

We have made substantial progress in each of these four main priority areas during the past few years. Our efforts have centered on protecting and enhancing the value of our key businesses, restoring AIG's financial strength, repaying U.S. taxpayers and reducing risk.

Federal Reserve Bank of New York

We repaid the governmental support that we received in September 2008 and thereafter during the global economic crisis. This support included a credit facility from the Federal Reserve Bank of New York (the FRBNY and such credit facility, the FRBNY Credit Facility) and funding from the Department of the Treasury through the Troubled Asset Relief Program (TARP). After receiving this support, our Board of Directors and management placed a strong focus on improving our businesses and pursued four main priorities:

building AIG's value by strengthening our international property and casualty and domestic life insurance and retirement businesses;

repaying support from the U.S. government, including through significant divestitures;

decreasing our operating costs; and

reducing risk by winding down our exposure to certain financial products and derivatives trading activities.

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Department of the Treasury

Through a series of transactions that closed on January 14, 2011 (the Recapitalization), we exchanged various forms of government support for AIG Common Stock, and the Department of the Treasury became AIG's majority shareholder, with approximately 92 percent of outstanding AIG Common Stock at that time.

The Department of the Treasury, as selling shareholder, sold all of its shares of AIG Common Stock through six registered public offerings completed in May 2011 and March, May, August, September and December 2012. We purchased approximately 421 million shares of AIG Common Stock in the first four of the 2012 offerings for approximately $13.0 billion. We did not purchase any shares in the May 2011 or December 2012 offerings.

See Item 7. MD&A Liquidity and Capital Resources and Notes 4, 17, 18, and 25 to the Consolidated Financial Statements for further discussion of the government support provided to AIG, the Recapitalization and significant asset dispositions.

These and other key accomplishments are described in the following table:

* AIG did not receive any proceeds from the sale of AIG Common Stock by the Department of the Treasury. The Department of the Treasury still owns ten-year warrants to purchase approximately 2.7 million shares of AIG Common Stock.

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AIG Property Casualty

Business Strategy

Business Mix Shift: Grow in higher value lines of business and geographies.

Underwriting Excellence: Enhance pricing and risk-selection tools through investments in data mining, science and technology.

Claims Best Practices: Reduce loss costs through new claims technology, a more efficient and effective operating model and the use of data tools to better manage the economic drivers of losses.

Operating Expense Discipline: Decrease recurring operating expenses by leveraging AIG's scale and driving increased standardization.

Capital Management: Efficiently allocate capital through the use of risk adjusted profit metrics, optimization of reinsurance and legal entity restructuring.

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AIG Property Casualty Operating Segments   Products and Services

AIG Property Casualty operating segments are organized into *Commercial Insurance* and *Consumer Insurance.* Run-off lines of business and operations not attributable to these operating segments are included in an Other operations category.

*Percent of 2012 Net premiums written by operating segment**

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

Commercial Insurance
Percent of 2012 Net premiums written by product line
(dollars in millions)

Consumer Insurance
Percent of 2012 Net premiums written by product line
(dollars in millions)

Commercial products:

Consumer products:

Casualty: Includes general liability, commercial automobile liability, workers' compensation, excess casualty and crisis management insurance. Casualty also includes risk management and other customized structured programs for large corporate customers and multinational companies.

Accident & Health: Includes voluntary and sponsor-paid personal accidental and supplemental health products for individuals, employees, associations and other organizations. It also includes life products (outside of the U.S. market) as well as a broad range of travel insurance products and services for leisure and business travelers.

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Property: Includes industrial energy-related and commercial property insurance products, which cover exposures to man-made and natural disasters, including business interruption.

Specialty: Includes aerospace, environmental, political risk, trade credit, surety and marine insurance, and various product offerings for small and medium sized enterprises.

Financial: Includes various forms of professional liability insurance, including directors and officers (D&O), fidelity, employment practices, fiduciary liability, network security, kidnap and ransom, and errors and omissions insurance (E&O).

Distribution: Commercial Insurance products are primarily distributed through a network of independent retail and wholesale brokers and branches, and through an independent agency network.

Personal: Includes automobile, homeowners and extended warranty insurance. It also includes insurance for high-net-worth individuals (offered through Private Client Group), including umbrella, yacht and fine art insurance, and consumer specialty products, such as identity theft and credit card protection.

Distribution: Consumer Insurance products are distributed primarily through agents and brokers, as well as through direct marketing and partner organizations and through the internet.

Other: Consists primarily of: run-off lines of business; operations and expenses not attributable to the Commercial Insurance or Consumer Insurance operating segments; unallocated net investment income; net realized capital gains and losses; and other income and expense items.

AIG Property Casualty conducts its business primarily through the following major operating companies: National Union Fire Insurance Company of Pittsburgh, Pa.; New Hampshire Insurance Company; American Home Assurance Company; Lexington Insurance Company; AIU Insurance Company; Chartis Overseas Limited; Fuji; Chartis Singapore Insurance, Pte, Ltd. and AIG Europe Limited.

A Look at AIG Property Casualty

Global Footprint

AIG Property Casualty has a significant international presence in both developed markets and growth economy nations. It distributes its products through three major geographic regions:

Americas: Includes the United States, Canada, Central America, South America, the Caribbean and Bermuda.

Asia Pacific: Includes Japan and other Asia Pacific nations, including China, Korea, Singapore, Vietnam, Thailand, Australia and Indonesia.

EMEA (Europe, Middle East and Africa): Includes the United Kingdom, Continental Europe, Russia, India, the Middle East and Africa.

In 2012, 6 percent and 5 percent of AIG Property Casualty direct premiums were written in the states of California and New York, respectively, and 19 percent and 7 percent were written in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than 5 percent of such premiums.

On November 21, 2012, AIG, People's Insurance Company (Group) of China Limited (PICC Group) and PICC Life Insurance Company Limited (PICC Life) entered into a non-binding term sheet with respect to the proposed establishment of a joint venture insurance agency company between AIG and PICC Life (the Joint Venture) which plans to distribute life insurance and other insurance products through a specialized agency force on a nationwide basis with a focus on major cities in China and to engage in reinsurance and other related business cooperation. AIG

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Life and Retirement made an equity investment of approximately $0.5 billion in PICC Group. AIG's participation in the Joint Venture will be managed by AIG Property Casualty.

Total Net Premiums Written $34.4 bn

Based on net premiums written in 2011, AIG Property Casualty is the largest U.S. commercial insurer in the U.S. and Canada, the largest U.S. based property casualty insurer in Europe, and the largest foreign property casualty insurer in Japan and China. In addition, AIG Property Casualty was first to market in many developing nations and is well positioned to enhance its businesses in countries such as China, India and Brazil.

Competition

Operating in a highly competitive industry, AIG Property Casualty competes against approximately 3,300 stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. In international markets, we compete for business with the foreign insurance operations of large U.S. insurers global insurance groups and local companies in specific market areas and product types.

Insurance companies compete through a combination of risk acceptance criteria, product pricing, service and terms and conditions. AIG Property Casualty distinguishes itself in the insurance industry primarily based on its well-established brand, financial strength and large capital base, innovative products, expertise in providing specialized coverages and customer service.

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AIG Property Casualty serves its business and individual customers on a global basis from the largest multinational corporations to local businesses and individuals. Our clients benefit from our substantial underwriting expertise and long-term commitment to the markets and clients we serve.

AIG Property Casualty Competitive Strengths and Challenges

Diversification breadth of customers served, products underwritten and distribution channels
Global franchise operating in more than 90 countries and jurisdictions
Scale facilitates risk diversification to optimize returns on capital
Service focused on customer needs, providing strong global claims, loss prevention and mitigation, engineering, underwriting and other related services
Expertise experienced employees complemented with new talent
Financial strength well capitalized, strong balance sheet
Somewhat offsetting these strengths are the following challenges:
Barriers to entry are high
Regulatory changes in recent years created an increasingly complex environment that is affecting industry growth and profitability

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AIG Life and Retirement

Business Strategy

AIG Life and Retirement is focused on the following strategic initiatives:

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

Increase Life Insurance In-Force: Develop innovative life offerings through consumer focused research that delivers superior, differentiated product solutions. Consolidate life insurance platforms, operations and systems to create a more efficient, cost-competitive and agile operating model.

Enhance Return on Equity: Build on simplified legal entity structure to enhance financial strength and durability, capital efficiency and ease of doing business. Improve operational efficiencies, expense control and service through investments in technology and more productive use of existing resources and lower-cost operations centers.

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Operating Segments

AIG Life and Retirement currently has two operating segments: *Life Insurance* focuses on life insurance and related protection products and *Retirement Services* focuses on investment, retirement savings and income solution products. On April 12, 2012, AIG Life and Retirement announced several key organizational structure and management changes intended to better serve the organization's distribution partners and customers. Key aspects of the new structure are distinct product divisions, shared annuity and life operations platforms and a unified all-channel distribution organization with access to all AIG Life and Retirement products.

AIG Life and Retirement expects to modify its presentation of results to reflect its new structure when the reporting changes are implemented in the first quarter of 2013 and conform all prior periods' presentations to reflect the new structure. The new structure will include two operating segments *Retail* and *Institutional*. Retail product lines will include life insurance and accident and health (A&H), fixed annuities, variable annuities and income solutions, brokerage services and retail mutual funds. Institutional product lines will include group retirement, group benefits and institutional markets. The institutional markets product line will consist of stable value wrap products, structured settlement and terminal funding annuities, private placement variable life and annuities, guaranteed investment contracts and corporate and bank-owned life insurance.

Additionally, AIG Life and Retirement completed the merger of six life insurance operating legal entities into American General Life Insurance Company effective December 31, 2012. This merger facilitates capital and dividend planning while creating operating efficiencies and making it easier for producers and customers to do business with AIG Life and Retirement. AIG Life and Retirement will continue to market products and services under its existing brands.

AIG Life and Retirement Operating Segments   Products and Services

Percent of 2012 total revenue by operating segment (dollars in millions)

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Life Insurance

Percent of 2012 Premiums, Deposits and other considerations by line of business
(dollars in millions)

Retirement Services

Percent of 2012 Premiums, Deposits and other considerations by line of business
(dollars in millions)

* Other includes fixed, equity indexed and runoff annuities.

Products include a full line of life insurance, deferred and payout annuities, A&H products, worksite and group benefits.

Products and services focus on investment, retirement savings and income solution products.

AIG Life and Retirement is one of the largest life insurance organizations in the United States and is a leader in today's financial services marketplace.

AIG Life and Retirement holds leadership positions in both retail and institutional markets:

Long-standing leadership position in fixed annuity sales through banks and other financial institutions

Innovator in guaranteed income solutions and a top provider of variable annuities

Industry-leading life and accident and health products

Broad range of retail mutual fund offerings

One of the largest independent broker-dealer networks in the country

Leading retirement plan provider in K-12 schools, higher education, healthcare, government and other nonprofit entities

Institutional Markets offerings, including leadership position in structured settlement annuities

Extensive lineup of group benefits offered in worksites and through affinity organizations

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Life Insurance

The Life Insurance operating segment offers a broad range of protection and mortality-based products. These products are marketed under four principal brands American General, AGLA, AIG Direct and AIG Benefit Solutions.

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

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

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

Retirement Services

The Retirement Services operating segment provides investment, retirement and income solutions products and services. These products and services are marketed through a variety of brands described below.

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

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

Variable Annuities: Products are marketed under the SunAmerica Retirement Markets (SARM) brand and are designed to provide customers with retirement income. Customers may choose among a wide range of variable annuities offering diverse investment options and product features, including stock and fixed income portfolios, guaranteed death benefits and various guaranteed retirement income solutions. Variable annuity products are distributed through banks and national, regional and independent broker-dealer firms.

Brokerage Services: Includes the operations of Advisor Group, which is one of the largest networks of independent financial advisors in the U.S. Brands include Royal Alliance, SagePoint, FSC Securities and Woodbury Financial, which we acquired in November 2012 for $48 million after purchase price adjustments.

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

AIG Life and Retirement conducts its business primarily through three major insurance operating companies: American General Life Insurance Company, The Variable Annuity Life Insurance Company and The United States Life Insurance Company in the City of New York.

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AIG Life and Retirement 2012 Premiums and Premiums, Deposits and Other Considerations

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

See Item 7. MD&A Result of Operations AIG Life and Retirement Operations Premiums for a reconciliation of premiums, deposits and other considerations to premiums.

A Look at AIG Life and Retirement

AIG Life and Retirement 2012 Sales by Distribution Channel
(dollars in millions)

Represents life and group A&H premiums from new policies expected to be collected over a one-year period plus 10 percent of life unscheduled deposits, single premiums and annuity deposits from new and existing customers.

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AIG Life and Retirement's Diversified Distribution Network

Affiliated

VALIC career financial advisors Over 1,200 financial advisors serving the worksites of educational, not-for-profit and governmental organizations

AGLA career agents Over 3,100 agents focused on the broad middle market

Advisor Group Over 6,000 independent financial advisors

AIG Direct A leading direct-to-consumer distributor of life and A&H products

Nonaffiliated

Banks Nearly 600 banks and 69,000 financial institution agents

Independent marketing organizations Relationships with over 1,700 independent marketing organizations and brokerage general agencies providing access to over 150,000 licensed independent agents

Broker dealers Access to over 120,000 licensed financial professionals

Benefit brokers Include consultants, brokers, third party administrators and general agents

Competition and Customer Marketing Strengths

AIG Life and Retirement competes against approximately 1,800 providers of life insurance and retirement savings products, including other large, well-established life insurance companies and other financial services companies. Life insurance companies compete through a combination of risk-acceptance (underwriting) criteria, product pricing, service, and terms and conditions. Retirement services companies also compete through crediting rates and through offering guaranteed benefits features.

AIG Life and Retirement competes in the life insurance and retirement savings businesses primarily based on its well-established brands, innovative products, extensive distribution network, customer service and strong financial ratings. AIG Life and Retirement helps ensure financial and retirement security for more than 18 million customers.

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AIG Life and Retirement Competitive Strengths

Leading life insurance and retirement brands

Diversified product mix

Broad multi-channel distribution network

Financial strength

AIG Life and Retirement is an established leader with well-regarded brands in the markets it serves. AIG Life and Retirement has the scale and breadth of product knowledge to deliver effective solutions across a range of markets.

AIG Life and Retirement has an expansive product suite including life insurance, accident and health, annuity, mutual fund, group retirement, group benefit and institutional products as well as other solutions to help provide a secure future for our customers.

AIG Life and Retirement's distribution footprint covers a broad expanse of the U.S. market. AIG Life and Retirement products are sold by over 300,000 financial professionals across an extensive and growing multichannel network of financial advisors and insurance agents that spans both affiliated and non-affiliated partners.

AIG Life and Retirement's financial profile is strong and stable, giving customers confidence in AIG Life and Retirement's ability to meet financial obligations associated with its retirement and insurance products.

Somewhat offsetting these strengths are regulatory changes in recent years, which have created an increasingly complex environment that is affecting industry growth and profitability.

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Other Operations

Mortgage Guaranty (United Guaranty Corporation or UGC) offers private residential mortgage guaranty insurance, which protects mortgage lenders and investors from loss due to borrower default and loan foreclosure. With over 1,100 employees, United Guaranty currently insures over one million mortgage loans in the United States and has operations in nine other countries. In 2012, United Guaranty generated more than $37 billion in new insurance written, which represents the original principal balance of the insured mortgages, becoming the leading provider of private mortgage insurance in the United States and is the highest rated private mortgage insurance company in the U.S.

Mortgage Guaranty Business Strategy

Risk Selection: Ensure the high quality of our business through a continuous focus on risk selection and risk based pricing using a proprietary, multi-variant risk evaluation model and disciplined underwriting approach.

Innovation: Focus on innovation through the development and enhancement of products, technology, and processes, addressing the needs of stakeholders in the mortgage system.

Ease of Use: Eliminate complexity in the mortgage insurance system to create growth without sacrificing disciplined risk selection and management.

Expense Management: Streamline our processes through the use of technology and shared services to more quickly react to the changing dynamics of the mortgage industry.

Mortgage Guaranty Insurance

Products and Services: United Guaranty provides an array of products and services including first-lien mortgage guaranty insurance in a range of premium payment plans. United Guaranty's primary product is private mortgage insurance. The coverage we provide which is called mortgage guaranty insurance, mortgage insurance, or simply "MI" enables borrowers to purchase a house with a modest down payment. This is because MI protects lenders against the increased risk of borrower default related to high loan-to-value (LTV) mortgages those with less than 20 percent equity. In short, MI lets lenders provide more mortgage loans to more people.

Homeowner Support: United Guaranty also works with homeowners who are behind on their mortgage payments to identify ways to retain their home. As a liaison between the borrower and the mortgage servicer, United Guaranty provides the added support to qualified homeowners to help them avoid foreclosure.

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A Look at Mortgage Guaranty

Mortgage Guaranty Distribution Channels

National Mortgage Bankers	Community Banks
Money Center Banks	State Housing Finance Agencies
Regional Mortgage Lenders	Builder-owned Mortgage Lenders
Credit Unions	Internet-sourced lenders

Mortgage Guaranty Competition and Competitive Strengths

United Guaranty competes with six private providers of mortgage insurance, both well-established and new entrants to the industry, and The Federal Housing Administration, which is the largest provider of mortgage insurance in the United States.

The United Guaranty brand has 50 years of history and is well regarded in the industry. We differentiate ourselves through our financial strength, our risk based pricing strategy, which provides for lower premiums for lower risk mortgages, our innovative products and our rigorous approach to risk management. Despite these strengths there are potential challenges arising in the mortgage market from increasingly complex regulations relating to mortgage originations as well as uncertainty in the government's involvement in the domestic residential housing finance system in the future. These challenges may have an adverse impact on our business.

Other operations also include:

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

Direct Investment Book (DIB) consists of a portfolio of assets and liabilities held directly by AIG Parent in the Matched Investment Program (MIP) and certain subsidiaries not related to AIG's core insurance operations (including certain non-derivative assets and liabilities of AIGFP). The management of the DIB portfolio is focused on an orderly wind down to maximize returns consistent with AIG's risk management objectives. Certain non-derivative assets and liabilities of the DIB are accounted for under the fair value option and thus operating results are subject to periodic market volatility.

Retained Interests includes the fair value gains or losses, prior to their sale, of the AIA ordinary shares retained following the AIA initial public offering and the MetLife, Inc. (MetLife) securities that were received as consideration from the sale of American Life Insurance Company (ALICO) and the fair value gains or losses, prior to the FRBNY liquidation of ML III assets, on the retained interest in ML III.

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

Divested Businesses We have divested a number of businesses since 2009 in connection with our strategies to focus on core businesses, repay governmental support, and improve our financial flexibility and risk management. Divested businesses include the historical results of divested entities that did not meet the criteria for discontinued operations accounting treatment.

Divested businesses include the historical results of AIA through October 29, 2010 and AIG's remaining consumer finance business, discussed below. In the third quarter of 2010, AIG completed an initial public offering of ordinary shares of AIA. Upon completion of this initial public offering, AIG owned approximately 33 percent of the outstanding shares of AIA. Because of this ownership position in AIA, as well as AIG's prior representation on the AIA board of directors, AIA was not presented as a discontinued operation.

Discontinued Operations consist of entities that were sold, or are being sold, that met specific accounting criteria discussed in Note 4 to the Consolidated Financial Statements.

On December 9, 2012, AIG entered into an agreement to sell 80.1 percent of ILFC for approximately $4.2 billion in cash, with an option for the purchaser to buy an additional 9.9 percent stake. The sale is expected to be consummated in 2013. The operating results for ILFC are reflected as a discontinued operation in all periods presented and its assets and liabilities have been classified as held for sale at December 31, 2012.

On August 18, 2011, AIG closed the sale of Nan Shan Life Insurance Company, Ltd. (Nan Shan). On February 1, 2011, AIG closed the sale of AIG Star Life Insurance Co., Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison). The operating results for Nan Shan, AIG Star and AIG Edison through the dates of their respective sales are reflected as discontinued operations in all periods prior to 2012.

In the fourth quarter of 2010, AIG closed the sales of ALICO and American General Finance, Inc. (AGF). Periods prior to 2011 reflect ALICO and AGF as discontinued operations.

Additionally, following the classification of AGF as a discontinued operation in the third quarter of 2010, AIG's remaining consumer finance business, which is primarily conducted through the AIG Federal Savings Bank and the Consumer Finance Group in Poland, is now reported in AIG's Other operations category as part of Corporate & Other.

A REVIEW OF LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE

The liability for unpaid claims and claims adjustment expenses represents the accumulation of estimates for unpaid reported claims and claims that have been incurred but not reported (IBNR) for our AIG Property Casualty subsidiaries and Mortgage Guaranty. Unpaid claims and claims adjustment expenses are also referred to as unpaid loss and loss adjustment expenses, or just loss reserves.

We recognized as assets the portion of this liability that will be recovered from reinsurers. Reserves are discounted for future expected investment income, where permitted, in accordance with U.S. GAAP.

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The Loss Reserve Development Process

The process of establishing the liability for unpaid losses and loss adjustment expenses is complex and imprecise because it must take into consideration many variables that are subject to the outcome of future events. As a result, informed subjective estimates and judgments about our ultimate exposure to losses are an integral component of our loss reserving process.

We use a number of techniques to analyze the adequacy of the established net liability for unpaid claims and claims adjustment expense (net loss reserves). Using these analytical techniques, we monitor the adequacy of AIG's established reserves and determine appropriate assumptions for inflation and other factors influencing loss costs. Our analysis also takes into account emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence. We also consider specific factors that may impact losses, such as changing trends in medical costs, unemployment levels and other economic indicators, as well as changes in legislation and social attitudes that may affect decisions to file claims or the magnitude of court awards. See Item 7. MD&A Critical Accounting Estimates for a description of our loss reserving process.
A significant portion of AIG Property Casualty's business is in the U.S. commercial casualty class, which tends to involve longer periods of time for the reporting and settlement of claims and may increase the risk and uncertainty with respect to our loss reserve development.

Because reserve estimates are subject to the outcome of future events, changes in prior year estimates are unavoidable in the insurance industry. These changes in estimates are sometimes referred to as "loss development" or "reserve development."

Analysis of Consolidated Loss Reserve Development

The "Analysis of Consolidated Loss Reserve Development" table shown on page 22 presents the development of prior year net loss reserves for calendar years 2002 through 2012 for each balance sheet in that period. The information in the table is presented in accordance with reporting requirements of the Securities and Exchange Commission (SEC). This table should be interpreted with care by those not familiar with its format or those who are familiar with other loss development analyses arranged in an accident year or underwriting year basis rather than the balance sheet, as shown below. See Note 13 to the Consolidated Financial Statements.

*The top row of the table shows **Net Reserves Held** (the net liability for unpaid claims and claims adjustment expenses) at each balance sheet date, net of discount.* This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for IBNR claims. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held.

For example, **Net Reserves Held (Undiscounted)** was $30.8 billion at December 31, 2002.

*The next section of the table shows the original **Net Undiscounted Reserves re-estimated** over 10 years. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of significant judgments, the emergence of latent exposures, and changes in medical cost trends.* For example, the original undiscounted reserve of $30.8 billion at December 31, 2002, was re-estimated to $58.0 billion at December 31, 2012. The amount of the development related to losses settled or re-estimated in 2012, but incurred in 2009, is included in the cumulative development amount for years 2009, 2010 and 2011. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

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*The middle of the table shows **Net Redundancy/(Deficiency).** This is the aggregate change in estimates over the period of years covered by the table.* For example, the net loss reserve deficiency of $27.1 billion for 2002 is the difference between the original undiscounted reserve of $30.8 billion at December 31, 2002 and the $58.0 billion of re-estimated reserves at December 31, 2012. The net redundancy/(deficiency) amounts are cumulative; in other words, the amount shown in the 2011 column includes the amount shown in the 2010 column, and so on. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

*The bottom portion of the table shows the **Paid (Cumulative)** amounts during successive years related to the undiscounted loss reserves.* For example, as of December 31, 2012, AIG had paid a total of $47.9 billion of the $58.0 billion in re-estimated reserves for 2002, resulting in Remaining Reserves (Undiscounted) of $10.1 billion for 2002. Also included in this section are the **Remaining Reserves (Undiscounted)** and the **Remaining Discount** for each year.

The following table presents loss reserves and the related loss development 2002 through 2012 and consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the re-estimation of these amounts as of December 31, 2012.[(a)]

llions)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2
Reserves Held(b)	$ 29,347	$ 36,228	$ 47,253	$ 57,476	$ 62,630	$ 69,288	$ 72,455	$ 67,899	$ 71,507	$ 70,825	$ 68
count (in Reserves d)	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655	3,217	3,183	3
Reserves Held discounted)	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554	74,724	74,008	$ 72
undiscounted Reserve stimated as of:											
year later	32,913	40,931	53,486	59,533	64,238	71,836	77,800	74,736	74,919	74,429	
years later	37,583	49,463	55,009	60,126	64,764	74,318	82,043	74,529	75,502		
ee years later	46,179	51,497	56,047	61,242	67,303	78,275	81,719	75,187			
r years later	48,427	52,964	57,618	63,872	70,733	78,245	82,422				
years later	49,855	54,870	60,231	67,102	70,876	79,098					
years later	51,560	57,300	63,348	67,518	71,572						
en years later	53,917	60,283	63,928	68,233							
nt years later	56,827	60,879	64,532								
e years later	57,410	61,449									
years later	57,967										
Deficiency on net rves held	(27,121)	(23,705)	(15,726)	(8,647)	(6,678)	(7,381)	(7,393)	(4,633)	(778)	(421)	
Deficiency related to E	(4,042)	(3,970)	(2,965)	(2,036)	(1,827)	(1,809)	(1,759)	(1,607)	(106)	(76)	
Deficiency excluding E	(23,079)	(19,735)	(12,761)	(6,611)	(4,851)	(5,572)	(5,634)	(3,026)	(672)	(345)	
d (Cumulative) as of:											
year later	10,775	12,163	14,910	15,326	14,862	16,531	24,267	15,919	17,661	19,235	
years later	18,589	21,773	24,377	25,152	24,388	31,791	36,164	28,428	30,620		
ee years later	25,513	28,763	31,296	32,295	34,647	40,401	46,856	38,183			
r years later	30,757	33,825	36,804	40,380	40,447	48,520	53,616				
years later	34,627	38,087	43,162	44,473	46,474	53,593					
years later	37,778	42,924	46,330	49,552	50,391						

en years later	41,493	45,215	50,462	52,243							
nt years later	43,312	48,866	52,214								
e years later	46,622	50,292									
years later	47,856										
naining Reserves discounted)	10,111	11,157	12,318	15,990	21,181	25,505	28,806	37,004	44,882	55,194	
naining Discount	876	993	1,087	1,203	1,362	1,589	1,869	2,203	2,535	2,899	
naining Reserves	$ 9,235	$ 10,164	$ 11,231	$ 14,787	$ 19,819	$ 23,916	$ 26,937	$ 34,801	$ 42,347	$ 52,295	
Liability, End of Year	$ 30,846	$ 37,744	$ 48,806	$ 59,586	$ 64,894	$ 71,717	$ 75,030	$ 70,554	$ 74,724	$ 74,008	$ 72
nsurance Recoverable, of Year	17,327	15,644	14,624	19,693	17,369	16,212	16,803	17,487	19,644	20,320	19
ss Liability, End of r	48,173	53,388	63,430	79,279	82,263	87,929	91,833	88,041	94,368	94,328	$ 91
estimated Net Liability	57,967	61,449	64,532	68,233	71,572	79,098	82,422	75,187	75,502	74,429	
estimated Reinsurance overable	25,535	23,131	21,249	24,093	20,528	19,135	18,480	18,371	16,861	20,395	
estimated Gross bility	83,502	84,580	85,781	92,326	92,100	98,233	100,902	93,558	92,363	94,824	
mulative Gross undancy/(Deficiency)	$ (35,329)	$ (31,192)	$ (22,351)	$ (13,047)	$ (9,837)	$ (10,304)	$ (9,069)	$ (5,517)	$ 2,005	$ (496)	

(a) During 2009, we deconsolidated Transatlantic Holdings, Inc. and sold 21st Century Insurance Group and HSB Group, Inc. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.7 billion and as an $8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.

(b) The increase in Net Reserves Held from 2009 to 2010 is partially due to the $1.7 billion in Net Reserves Held by Fuji, which was acquired in 2010. The decrease in 2011 is due to the cession of asbestos reserves described in Item 7. MD&A Results of Operations Segment Results AIG Property Casualty Operations Liability for Unpaid Claims and Claims Adjustment Expense Asbestos and Environmental Reserves.

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The Liability for unpaid claims and claims adjustment expense as reported in AIG's Consolidated Balance Sheet at December 31, 2012 differs from the total reserve reported in the annual statements filed with state insurance departments and, where applicable, with foreign regulatory authorities primarily for the following reasons:

- Reserves for certain foreign operations are not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events;
- Statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverable; and
- Unlike statutory financial statements, AIG's consolidated Liability for unpaid claims and claims adjustment expense excludes the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverables and represent the accumulation of estimates for reported losses and IBNR. We review the adequacy of established gross loss reserves in the manner previously described for net loss reserves. A reconciliation of activity in the Liability for unpaid claims and claims adjustment expense is included in Note 13 to the Consolidated Financial Statements.

REINSURANCE ACTIVITIES

AIG subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross basis and reinsuring a portion of the exposure on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level. In addition, as a condition of certain direct underwriting transactions, we are required by clients, agents or regulation to cede all or a portion of risks to specified reinsurance entities, such as captives, other insurers, local reinsurers and compulsory pools.

In 2012, AIG Property Casualty adopted a new ceded reinsurance framework and strategy to improve the efficiency of our legal entity capital management and support our global product line risk and profitability objectives. Reinsurance is also used to manage overall capital adequacy and mitigate the effects of certain events such as natural and man-made catastrophes. As a result of adopting the new framework and strategy, many individual reinsurance contracts were consolidated into more efficient global programs and reinsurance ceded to third parties in support of risk and capital management objectives has decreased in 2012. There are many different forms of reinsurance agreements and different markets that may be used to achieve our risk and profitability objectives. We continually evaluate the reinsurance markets and the relative attractiveness of various arrangements that may be used to achieve our risk and profitability objectives.

The form of reinsurance that we may choose from time to time will generally depend on whether we are seeking (i) proportional reinsurance, whereby we cede a specified percentage of premium and losses to reinsurers, or non-proportional or excess of loss reinsurance, whereby we cede all or a specified portion of losses in excess of a specified amount on a per risk, per occurrence (including catastrophe reinsurance) or aggregate basis and (ii) treaties that cover a defined book of policies, or facultative placements that cover an individual policy.

Reinsurance markets include:

- Traditional local and global reinsurance markets including in the United States, Bermuda, London and Europe, accessed directly and through reinsurance intermediaries;
- Capital markets through investors in ILS and collateralized reinsurance transactions, such as catastrophe bonds, "sidecars" (special purpose entities that allow investors to take on the risk of a book of business from an insurance company in exchange for a premium) and similar vehicles; and
- Other insurers which engage in both direct and assumed reinsurance and/or engage in swaps.

Reinsurance arrangements do not relieve the AIG subsidiaries from their direct obligations to insureds. However, an effective reinsurance program substantially mitigates our exposure to potentially significant losses.

See Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks Reinsurance Recoverables for a summary of significant reinsurers.

GENERATING REVENUES: INVESTMENT ACTIVITIES OF OUR INSURANCE OPERATIONS

AIG Property Casualty and AIG Life and Retirement generally receive premiums and deposits well in advance of paying covered claims or benefits. In the intervening periods, we invest these premiums and deposits to generate net investment income and fee income that is available to pay claims or benefits. As a result, we generate significant revenues from insurance investment activities.

We generate significant revenues in our AIG Property Casualty and AIG Life and Retirement operations from investment activities.

AIG's worldwide insurance investment policy places primary emphasis on investments in fixed maturity securities of corporations, municipal bonds and government issuances in all of its portfolios, and, to a lesser extent, investments in high-yield bonds, common stock, real estate, hedge funds and other alternative investments.
The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities.

AIG Property Casualty Fixed maturity securities held by the insurance companies included in AIG Property Casualty domestic operations historically have consisted primarily of laddered holdings of tax-exempt municipal bonds. These tax-exempt municipal bonds provided attractive after-tax returns and limited credit risk. To meet our domestic operations' current risk-return and tax objectives, our domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments. Any taxable instruments must meet our liquidity, duration and quality objectives as well as current risk-return and tax objectives. Fixed maturity securities held by AIG Property Casualty international operations consist primarily of intermediate duration high-grade securities, primarily in the markets being served. In addition, AIG Property Casualty has redeployed cash in excess of operating needs and short-term investments into longer-term, higher-yielding securities.

AIG Life and Retirement Our investment strategy is to generally match the duration of our liabilities with assets of comparable duration. AIG Life and Retirement also invests in a diversified portfolio of private equity funds, hedge funds and affordable housing partnerships. Although these types of investments are subject to periodic earnings volatility, through December 31, 2012, they have achieved total returns in excess of AIG Life and Retirement's base portfolio yield. AIG Life and Retirement expects that these alternative investments will continue to outperform the base portfolio yield over the long term.

The following table summarizes the investment results of AIG's insurance operations, excluding the results of discontinued operations

Years Ended December 31, *(in millions)*	Annual Average Investments[(a)]	Net Investment Income	Pre-tax Return on Average Investments[(b)]
AIG Property Casualty:			
2012	**$ 120,166**	**$ 4,820**	**4.0%**
2011	113,405	4,348	3.8
2010	100,583	4,392	4.4
AIG Life and Retirement:			
2012	**$ 190,983**	**$ 10,718**	**5.6%**
2011	172,846	9,882	5.7
2010	154,167	10,768	7.0

(a) Includes real estate investments and excludes cash and short-term investments.

(b) Net investment income divided by the annual average investments.

REGULATION

Our operations around the world are subject to regulation by many different types of regulatory authorities, including banking, insurance, securities and investment advisory regulators in the United States and abroad. The insurance

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and financial services industries generally have been subject to heightened regulatory scrutiny and supervision in recent years.

Federal Reserve Supervision

We are a savings and loan holding company (SLHC) within the meaning of the Home Owners' Loan Act (HOLA) and are regulated and subject to the examination, supervision and enforcement authority and reporting requirements of the Board of Governors of the Federal Reserve System (FRB). Because we were grandfathered as a unitary SLHC within the meaning of HOLA when we organized AIG Federal Savings Bank and became an SLHC in 1999, we generally are not restricted under existing laws as to the types of business activities in which we may engage, as long as AIG Federal Savings Bank continues to be a qualified thrift lender.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) has effected comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. The FRB supervises and regulates SLHCs, and the Office of the Comptroller of the Currency (OCC) supervises and regulates federal savings associations, such as AIG Federal Savings Bank. Dodd-Frank directs existing and newly-created government agencies and oversight bodies to promulgate regulations implementing the law, an ongoing process that has begun and is anticipated to continue over the next few years.

Changes mandated by Dodd-Frank include directing the FRB to promulgate minimum capital requirements for SLHCs. The FRB, OCC and Federal Deposit Insurance Corporation (FDIC) have proposed revised minimum leverage and risk-based capital requirements that would apply to all bank holding companies and SLHCs, as well as to insured depository institutions, such as AIG Federal Savings Bank. As required by Dodd-Frank, the FRB has also proposed enhanced prudential standards for large bank holding companies and non-bank systemically important financial institutions (SIFIs) and has stated its intention to propose enhanced prudential standards for SLHCs pursuant to HOLA. We cannot predict whether the capital regulations will be adopted as proposed or what enhanced prudential standards the FRB will promulgate for SLHCs, either generally or as applicable to insurance businesses. Further, we cannot predict how the FRB will exercise general supervisory authority over us, although the FRB could, as a prudential matter, for example, limit our ability to pay dividends, purchase shares of AIG Common Stock or acquire or enter into other businesses. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally, impact our businesses, results of operations, cash flows or financial condition, or require us to raise additional capital or result in a downgrade of our credit ratings.

Furthermore, Dodd-Frank requires SIFIs to be subject to regulation, examination and supervision by the FRB (including minimum leverage and risk-based capital requirements). Nonbank SIFIs will be designated by the Financial Stability Oversight Council (Council) created by Dodd-Frank. If we are designated as a SIFI, we will be regulated by the FRB both in that capacity and in our capacity as an SLHC. The regulations applicable to SIFIs and to SLHCs, when all have been adopted as final rules, may differ materially from each other. In October 2012, we received a notice that we are under consideration by the Council for a proposed determination that we are a SIFI. The notice stated that we will be reviewed in Stage 3 of the SIFI determination process described in the Council's interpretive guidance for nonbank financial company determinations. If we are designated as a SIFI, we would also be subject to additional regulatory requirements, including heightened prudential standards. For a description of those standards as currently proposed and a discussion of the potential effects on us if we are designated as a SIFI, see Item 1A. Risk Factors Regulation.

As part of its general prudential supervisory powers, the FRB has the authority to limit our ability to conduct activities that would otherwise be permissible for us to engage in if we do not satisfy certain requirements.

Directive 2002/87/EC (the Directive) issued by the European Parliament provides that certain financial conglomerates with regulated entities in the European Union, such as AIG, are subject to supplementary supervision. Pursuant to the Directive, the Commission Bancaire, the French banking regulator, was appointed as our supervisory coordinator. We have been in discussions with, and have provided information to, the Autorité de Contrôle Prudentiel (formerly, the Commission Bancaire) and the UK Financial Services Authority regarding the possibility of proposing another of our existing regulators as our equivalent supervisor.

Capital Requirements

Section 171 of Dodd-Frank (the Collins Amendment) subjects SLHCs to capital requirements that must be no less stringent than the requirements generally applicable to insured depository institutions or quantitatively lower than the requirements in effect for insured depository institutions as of July 21, 2010. The regulatory capital requirements currently applicable to insured depository institutions, such as AIG Federal Savings Bank, are computed in accordance with the U.S. federal banking agencies' generally applicable risk-based capital requirements, which are based on accords established by the Basel Committee on Banking Supervision (Basel Committee). These accords have evolved over time, and are referred to as Basel I, Basel II and Basel III.

In June 2012, the federal banking agencies issued proposed rules that would revise and replace current regulatory capital rules for banking organizations, including SLHCs.

We are still considering the full impact of the proposed capital rules and the FRB and the other federal banking agencies have not adopted final rules. In addition, the FRB has announced that the rules will not be effective as of January 1, 2013, as originally proposed, but has not provided a revised effective date.

Also in June 2012, the FRB and the other federal banking agencies issued revised final rules that modify their market risk regulatory capital requirements for banking institutions with significant trading activities. These modifications are designed to address the adjustments to the market risk regulatory capital framework that were announced by the Basel Committee in June 2010 (referred to as "Basel II.5") and the prohibition on the use of external credit ratings, as required by Dodd-Frank. These changes become effective for banking institutions in 2013 and will likely become effective for us when capital requirements for SLHCs are implemented. These changes will result in increased regulatory capital requirements for market risk. We are still considering the full impact of these capital requirements.

Volcker Rule

In July 2012, Section 619 of Dodd-Frank, referred to as the "Volcker Rule," became effective, although the final rule implementing Section 619 has not yet been released. Under the proposed rule released in October 2011, if we continue to be regulated as an SLHC due to our control of AIG Federal Savings Bank, or control another insured depository institution, we and our affiliates would be considered banking entities for purposes of the rule and, after the rule's conformance date of July 21, 2014, would be prohibited from "proprietary trading" and sponsoring or investing in "covered funds," subject to the rule's exceptions. Even if we are no longer regulated as an SLHC or no longer control an insured depository institution, we could be subject to restrictions on these activities if we are designated as a SIFI, as Dodd-Frank authorizes the FRB to subject SIFIs to capital requirements, quantitative limits or other restrictions if they engage in activities prohibited for banking entities under the Volcker Rule. The Volcker Rule, as proposed, contains an exemption for proprietary trading by insurance companies for their general account, but the final breadth and scope of this exemption is uncertain.

Other Effects of Dodd-Frank

In addition, Dodd-Frank will also have the following effects on us:

- If we are designated as a SIFI, the FRB could (i) limit our ability to merge with, acquire, consolidate with, or become affiliated with another company, to offer specified financial products or to terminate specified activities; (ii) impose conditions on how we conduct our activities or (iii) with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require us to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

- If we are designated as a SIFI, we will be required to provide to regulators an annual plan for our rapid and orderly resolution in the event of material financial distress or failure, which must, among other things, ensure that AIG Federal Savings Bank is adequately protected from risks arising from our other entities and meet several specific standards, including requiring a detailed resolution strategy and analyses of our material entities, organizational structure, interconnections and interdependencies, and management information systems, among other elements.

The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices that we and other insurers or other financial services companies engage in.

Title II of Dodd-Frank provides that a financial company whose largest United States subsidiary is an insurer (such as us) may be subject to a special liquidation process outside the federal bankruptcy code. That process is to be administered by the FDIC upon a coordinated determination by the Secretary of the Treasury, the director of the Federal Insurance Office and the FRB, in consultation with the FDIC, that such a financial company is in default or in danger of default and presents a systemic risk to U.S. financial stability.

Dodd-Frank establishes a new framework for regulation of the over-the-counter (OTC) derivatives markets including the imposition of margin and collateral requirements, centralized clearing and reporting/record keeping requirements that could affect various activities of AIG and its insurance subsidiaries.

Dodd-Frank mandated a study to determine whether stable value contracts should be included in the definition of "swap." If that study concludes that stable value contracts are swaps, Dodd-Frank authorizes certain federal regulators to determine whether an exemption from the definition of a swap is appropriate and in the public interest. Certain of our affiliates are in or may participate in the stable value contract business. We cannot predict what regulations might emanate from the aforementioned study or be promulgated applicable to this business in the future.

Dodd-Frank established a Federal Insurance Office (FIO) within the Department of the Treasury headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council and participating in the Council's decisions regarding insurers, potentially including AIG, to be designated as a SIFI. The director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states. The FIO may also recommend enhanced regulations to state insurance regulatory bodies.

Dodd-Frank established the Consumer Financial Protection Bureau (CFPB) as an independent agency within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes. Insurance products and services are not within the CFPB's general jurisdiction, although the U.S. Department of Housing and Urban Development has since transferred authority to the CFPB to investigate mortgage insurance practices. Broker-dealers and investment advisers are not subject to the CFPB's jurisdiction when acting in their registered capacity.

Title XIV of Dodd-Frank also restricts certain terms for mortgage loans, such as loan fees, prepayment fees and other charges, and imposes certain duties on a lender to ensure that a borrower can afford to repay the loan.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to us, ex-post assessments to provide funds necessary to repay any borrowing and to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by us into state guaranty funds).

We cannot predict whether these actions will become effective or the effect they may have on the financial markets or on our business, results of operations, cash flows, financial condition and credit ratings. However, it is possible that such effect could be materially adverse. See Item 1A. Risk Factors Regulation for additional information.

Other Regulatory Developments

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and taking steps to avoid similar problems in the future. The Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly SIFIs, should be regulated. These frameworks and recommendations address such issues as

financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including compensation, and a host of related issues associated with responses to the financial crisis. The FSB has directed the International Association of Insurance Supervisors (the IAIS, headquartered in Basel, Switzerland) to create

standards relative to these areas and incorporate them within that body's Insurance Core Principles. IAIS Insurance Core Principles form the baseline threshold for how countries' financial services regulatory efforts are measured relative to the insurance sector. That measurement is made by periodic Financial Sector Assessment Program (FSAP) reviews conducted by the World Bank and the International Monetary Fund and the reports thereon spur the development of country-specific additional or amended regulatory changes. Lawmakers and regulatory authorities in a number of jurisdictions in which our subsidiaries conduct business have already begun implementing legislative and regulatory changes consistent with these recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency in Japan, financial and banking regulation adopted in France and compensation regulations proposed or adopted by the financial regulators in Germany and the United Kingdom Financial Services Authority.

Legislation in the European Union could also affect our international insurance operations. The Solvency II Directive (2009/138/EEC) (Solvency II), which was adopted on November 25, 2009 and is expected to become effective in January 2014, reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting standards. The impact on us will depend on whether the U.S. insurance regulatory regime is deemed "equivalent" to Solvency II; if the U.S. insurance regulatory regime is not equivalent, then we, along with other insurance companies, could be required to be supervised under Solvency II standards. Whether the U.S. insurance regulatory regime will be deemed "equivalent" is still under consideration by European authorities and remains uncertain, so we are not currently able to predict the impact of Solvency II.

We expect that the regulations applicable to us and our regulated entities will continue to evolve for the foreseeable future.

Regulation of Insurance Subsidiaries

Certain states require registration and periodic reporting by insurance companies that are licensed in such states and are controlled by other corporations. Applicable legislation typically requires periodic disclosure concerning the corporation that controls the registered insurer and the other companies in the holding company system and prior approval of intercompany services and transfers of assets, including in some instances payment of dividends by the insurance subsidiary, within the holding company system. Our subsidiaries are registered under such legislation in those states that have such requirements.

Our insurance subsidiaries are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an insurance official. The regulation and supervision relate primarily to the financial condition of the insurers and their corporate conduct and market conduct activities. This includes approval of policy forms and rates, the standards of solvency that must be met and maintained, including with respect to risk-based capital, the licensing of insurers and their agents, the nature of and limitations on investments, restrictions on the size of risks that may be insured under a single policy, deposits of securities for the benefit of policyholders, requirements for acceptability of reinsurers, periodic examinations of the affairs of insurance companies, the form and content of reports of financial condition required to be filed and reserves for unearned premiums, losses and other purposes. In general, such regulation is for the protection of policyholders rather than the equity owners of these companies.

In the U.S., the Risk-Based Capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the National Association of Insurance Commissioners (NAIC), which allows states to act upon the results of RBC calculations, and provides for four incremental levels of regulatory action regarding insurers whose RBC calculations fall below specific thresholds. Those levels of action range from the requirement to submit a plan describing how an insurer would regain a calculated RBC ratio above the respective threshold through a mandatory regulatory takeover of the company. The action thresholds are based on RBC levels that are calculated so that a company subject to such actions is solvent but its future solvency is in doubt without some type of corrective action. The RBC formula computes a risk-adjusted surplus level by applying discrete factors to various asset, premium and reserve items. These factors are developed to be risk-sensitive so that higher factors are applied to items exposed to greater risk. The statutory surplus of each of our U.S.-based life and property and casualty insurance subsidiaries exceeded RBC minimum required levels as of December 31, 2012.

If any of our insurance entities fell below prescribed levels of statutory surplus, it would be our intention to provide appropriate capital or other types of support to that entity, under formal support agreements or capital maintenance agreements (CMAs) or otherwise. For additional details regarding CMAs that we have entered into with our insurance subsidiaries, see Item 7. MD&A Liquidity and Capital Resources Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Property Casualty and AIG Life and Retirement.

The National Association of Insurance Commissioners (NAIC) has undertaken the Solvency Modernization Initiative (SMI) which focuses on a review of insurance solvency regulations throughout the U.S. financial regulatory system and is expected to lead to a set of long-term solvency modernization goals. SMI is broad in scope, but the NAIC has stated that its focus will include the U.S. solvency framework, group solvency issues, capital requirements, international accounting and regulatory standards, reinsurance and corporate governance.

A substantial portion of AIG Property Casualty's business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, we must satisfy local regulatory requirements, licenses issued by foreign authorities to our subsidiaries are subject to modification or revocation by such authorities, and therefore these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

In addition to licensing requirements, our foreign operations are also regulated in various jurisdictions with respect to currency, policy language and terms, advertising, amount and type of security deposits, amount and type of reserves, amount and type of capital to be held, amount and type of local investment and the share of profits to be returned to policyholders on participating policies. Some foreign countries regulate rates on various types of policies. Certain countries have established reinsurance institutions, wholly or partially owned by the local government, to which admitted insurers are obligated to cede a portion of their business on terms that may not always allow foreign insurers, including our subsidiaries, full compensation. In some countries, regulations governing constitution of technical reserves and remittance balances may hinder remittance of profits and repatriation of assets.

See Item 7. MD&A Liquidity and Capital Resources Regulation and Supervision and Note 20 to the Consolidated Financial Statements.

OUR COMPETITIVE ENVIRONMENT

AIG's businesses operate in a highly competitive global environment. Principal sources of competition are insurance companies, banks, and other non-bank financial institutions. AIG considers its principal competitors to be other large multinational insurance organizations. We describe our competitive strengths, our strategies to retain existing customers and attract new customers within each of our operating business segment descriptions.

OUR EMPLOYEES

At December 31, 2012, AIG and its subsidiaries had approximately 63,000 employees. We believe that our relations with our employees are satisfactory.

* Includes approximately 500 employees of ILFC, which was held for sale at December 31, 2012.

DIRECTORS AND EXECUTIVE OFFICERS OF AIG

Information concerning the directors and executive officers of AIG as of February 21, 2013 is set forth below.

Name	Title	Age	Served as Director or Officer Since
Robert H. Benmosche	Director, President and Chief Executive Officer	68	2009
W. Don Cornwell	Director	65	2011
John H. Fitzpatrick	Director	56	2011
Christopher S. Lynch	Director	55	2009
Arthur C. Martinez	Director	73	2009
George L. Miles, Jr.	Director	71	2005
Henry S. Miller	Director	67	2010
Robert S. Miller	Chairman	71	2009
Suzanne Nora Johnson	Director	55	2008
Morris W. Offit	Director	76	2005
Ronald A. Rittenmeyer	Director	65	2010
Douglas M. Steenland	Director	61	2009
Michael R. Cowan	Executive Vice President and Chief Administrative Officer	59	2011
William N. Dooley	Executive Vice President Investments	59	1992
Peter D. Hancock	Executive Vice President Property and Casualty Insurance	54	2010
David L. Herzog	Executive Vice President and Chief Financial Officer	53	2005
Jeffrey J. Hurd	Executive Vice President Human Resources and Communications	46	2010
Thomas A. Russo	Executive Vice President and General Counsel	69	2010
Siddhartha Sankaran	Executive Vice President and Chief Risk Officer	35	2010
Brian T. Schreiber	Executive Vice President and Treasurer	47	2002
Jay S. Wintrob	Executive Vice President Life and Retirement	55	1999
Charles S. Shamieh	Senior Vice President and Chief Corporate Actuary	46	2011

All directors of AIG are elected for one-year terms at the annual meeting of shareholders.

All executive officers are elected to one-year terms, but serve at the pleasure of the Board of Directors. Except for the following individuals below, each of the executive officers has, for more than five years, occupied an executive position with AIG or companies that are now its subsidiaries. There are no arrangements or understandings between any executive officer and any other person pursuant to which the executive officer was elected to such position.

Robert Benmosche joined AIG as Chief Executive Officer in August 2009. Previously, he served as Chairman and Chief Executive Officer of MetLife, Inc. from September 1998 to February 2006 (Chairman until April 2006). He served as President of MetLife, Inc. from September 1999 to June 2004, President and Chief Operating Officer from November 1997 to June 1998, and Executive Vice President from September 1995 to October 1997. Mr. Benmosche has served as a member of the Board of Directors of Credit Suisse Group since 2002.

Michael R. Cowan joined AIG as Senior Vice President and Chief Administrative Officer in January 2010. Prior to joining AIG, he was at Merrill Lynch where he had served as Senior Vice President, Global Corporate Services, since 1998. Mr. Cowan began his career at Merrill Lynch in 1986 as a Financial Manager and later served as Chief Administrative Officer for Europe, the Middle East and Africa. He was also Chief Financial Officer and a member of the Executive Management Committee for the Global Private Client business, including Merrill Lynch Asset Management.

Thomas Russo joined AIG as Executive Vice President Legal, Compliance, Regulatory Affairs and Government Affairs and General Counsel in February 2010. Prior to joining AIG, Mr. Russo was with the law firm of Patton Boggs, LLP, where he served as Senior Counsel. Prior to that, he was Chief Legal Officer of Lehman Brothers Holdings, Inc. Before joining Lehman Brothers in 1993, he was a partner at the law firm of Cadwalader, Wickersham & Taft and a member of its Management Committee.

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Peter Hancock joined AIG in February 2010 as Executive Vice President of Finance and Risk. Prior to joining AIG, Mr. Hancock served as Vice Chairman of KeyCorp, responsible for Key National Banking. Prior to KeyCorp, he served as Managing Director of Trinsum Group, Inc. Prior to that position, Mr. Hancock was at JP Morgan for 20 years, eventually serving as head of its fixed income division and ultimately Chief Financial Officer.

Siddartha Sankaran joined AIG in December 2010 as Senior Vice President and Chief Risk Officer. Prior to that, he was a partner in the Finance and Risk practice of Oliver Wyman Financial Services and served as Canadian Market Manager since 2006.

Charles S. Shamieh joined AIG in 2007 as Executive Director of Enterprise Risk Management. In January 2011, Mr. Shamieh was elected to his current position of Senior Vice President and Corporate Chief Actuary. Prior to joining AIG, Mr. Shamieh was Group Chief Risk Officer for Munich Re Group and a Member of the Group Committee of Munich Re's Board of Management since 2006.

AVAILABLE INFORMATION ABOUT AIG

Our corporate website is *www.aig.com*. We make available free of charge, through the Investor Information section of our corporate website, the following reports (and related amendments as filed with the SEC) as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC:

- *Annual Reports on Form 10-K*
- *Quarterly Reports on Form 10-Q*
- *Current Reports on Form 8-K*
- *Proxy Statements on Schedule 14A, as well as other filings with the SEC*

Also available on our corporate website:

- *Charters for Board Committees:* Audit, Nominating and Corporate Governance, Compensation and Management Resources, Finance and Risk Management, and Regulatory, Compliance and Public Policy Committees
- *Corporate Governance Guidelines* (*which include Director Independence Standards*)
- *Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics (we will post on our website any amendment or waiver to this Code within the time period required by the SEC)*
- *Employee Code of Conduct*
- *Related-Party Transactions Approval Policy*

Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on our website or that can be accessed through our website is not incorporated by reference into this Annual Report on Form 10-K. Reference to our website is made as an inactive textual reference.

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ITEM 1A / RISK FACTORS

Investing in AIG involves risk. In deciding whether to invest in AIG, you should carefully consider the following risk factors. Any of these risk factors could have a significant or material adverse effect on our businesses, results of operations, financial condition or liquidity. They could also cause significant fluctuations and volatility in the trading price of our securities. Readers should not consider any descriptions of these factors to be a complete set of all potential risks that could affect AIG. These factors should be considered carefully together with the other information contained in this report and the other reports and materials filed by us with the Securities and Exchange Commission (SEC). Further, many of these risks are interrelated and could occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence or exacerbate the effect of others. Such a combination could materially increase the severity of the impact of these risks on our results of operations, liquidity and financial condition.

MARKET CONDITIONS

Difficult conditions in the global capital markets and the economy may materially and adversely affect our businesses, results of operations, financial condition and liquidity. Our businesses are highly dependent on the economic environment, both in the U.S. and around the world. Concerns over continued high domestic unemployment, weakness in the U.S. housing and commercial real estate markets, the ability of the U.S. government to rein in the U.S. deficit, address the federal debt ceiling and reduce spending, and the European Union's ability to resolve its debt crisis, among other issues, have contributed to increased volatility and reduced expectations for the economy and the markets in the near term. Extreme prolonged market events, such as the global financial crisis during 2008 and 2009, have at times led, and could in the future lead, to a lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, and a widening of credit spreads. Difficult economic conditions could also result in increased unemployment and a severe decline in business across a wide range of industries and regions. These market and economic factors could have a material adverse effect on our businesses, results of operations, financial condition and liquidity.

Under difficult economic conditions, we could experience reduced demand for our financial and insurance products and an elevated incidence of claims and lapses or surrenders of policies. Contract holders may choose to defer or cease paying insurance premiums. Other ways in which we could be negatively affected by economic conditions, include, but are not limited to:

- declines in the valuation and performance of our investment portfolio, including declines attributable to rapid increases in rates;
- increased credit losses;
- declines in the value of other assets;
- impairments of goodwill and other long-lived assets;
- additional statutory capital requirements;
- limitations on our ability to recover deferred tax assets;
- a decline in new business levels and renewals;

a decline in insured values caused by a decrease in activity at client organizations;

an increase in liability for future policy benefits due to loss recognition on certain long-duration insurance contracts;

higher borrowing costs and more limited availability of credit;

an increase in policy surrenders and cancellations; and

a write-off of deferred policy acquisition costs (DAC).

Sustained low interest rates may materially and adversely affect our profitability. Sustained low interest rates can negatively affect the performance of our investment securities and reduce the level of investment income earned on our investment portfolios. If a low interest rate environment persists, we may experience slower investment

income growth and we may not be able to fully mitigate the interest rate risk of our assets relative to our liabilities. Continued low interest rates could impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued.

INVESTMENT PORTFOLIO, CONCENTRATION OF INVESTMENTS, INSURANCE AND OTHER EXPOSURES

The performance and value of our investment portfolio are subject to a number of risks and uncertainties, including changes in interest rates. Interest rates are highly sensitive to many factors, including monetary policies, domestic and international economic and political issues and other factors beyond our control. Changes in monetary policy or other factors may cause interest rates to rise, which would adversely affect the value of the fixed income securities that we hold and could adversely affect our ability to sell these securities. In addition, the evaluation of available-for-sale securities for other-than-temporary impairments, which may occur if interest rates rise, is a quantitative and qualitative process that is subject to significant management judgment.

Our investment portfolio is concentrated in certain segments of the economy. Our results of operations and financial condition have been adversely affected by the degree of concentration in our investment portfolio in the past, and this may occur again in the future. We have concentrations in residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. We also have significant exposures to financial institutions and, in particular, to money center and global banks; U.S. state and local government issuers and authorities; and Eurozone financial institutions and governments and corporations. Events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may adversely affect our investments that are concentrated in such segments. Our ability to sell assets concentrated in such areas may be limited if other market participants are selling similar assets at the same time.

Concentration of our insurance and other risk exposures may have adverse effects. We may be exposed to risks as a result of concentrations in our insurance policies, derivatives and other obligations that we undertake for customers and counterparties. We manage these concentration risks by monitoring the accumulation of our exposures by factors such as exposure type, industry, geographic region, counterparty and other factors. We also use reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits we wish to retain. In certain circumstances, however, these risk management arrangements may not be available on acceptable terms or may prove to be ineffective for certain exposures. Also, our exposure may be so large that even a slightly adverse experience compared to our expectations may have a material adverse effect on our consolidated results of operations or financial condition, or result in additional statutory capital requirements for our subsidiaries.

RESERVES AND EXPOSURES

Our consolidated results of operations, liquidity and financial condition are subject to the effects of catastrophic events. Events such as hurricanes, windstorms, flooding, earthquakes, pandemic disease, acts of terrorism and other catastrophes have adversely affected our business in the past and could do so in the future. Such events could expose us to:

- widespread claim costs associated with property, workers' compensation, business interruption and mortality and morbidity claims;
- loss resulting from a decline in the value of our invested assets
- limitations on our ability to recover deferred tax assets;
- loss resulting from actual policy experience that is adverse compared to the assumptions made in the product pricing; and
- significant interruptions to our systems and operations.

For a sensitivity analysis of our exposure to certain catastrophes, see Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks Catastrophe Exposures.

Insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. We regularly review the adequacy of the established Liability for unpaid claims and claims adjustment

expense and conduct extensive analyses of our reserves during the year. Our loss reserves, however, may develop adversely. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process, particularly for long-tail casualty lines of business. These include, but are not limited to, general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, D&O and products liability.

While we use a number of analytical reserve development techniques to project future loss development, reserves may be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be due to difficulties in predicting changes, such as changes in inflation, the judicial environment, or other social or economic factors affecting claims. Any deviation in loss cost trends or in loss development factors might not be identified for an extended period of time after we record the initial loss reserve estimates for any accident year or number of years. For a further discussion of our loss reserves, see Item 7. MD&A Results of Operations Segment Results AIG Property Casualty Operations Liability for Unpaid Claims and Claims Adjustment Expense and Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expense (AIG Property Casualty and Mortgage Guaranty).

Reinsurance may not be available or affordable and may not be adequate to protect us against losses. Our subsidiaries are major purchasers of reinsurance and we use reinsurance as part of our overall risk management strategy. While reinsurance does not discharge our subsidiaries from their obligation to pay claims for losses insured under our policies, it does make the reinsurer liable to them for the reinsured portion of the risk. For this reason, reinsurance is an important risk management tool to manage transaction and insurance line risk retention and to mitigate losses from catastrophes. Market conditions beyond our control determine the availability and cost of reinsurance. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. As a result, we may, at certain times, be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms. In that case, we would have to accept an increase in exposure risk, reduce the amount of business written by our subsidiaries or seek alternatives. Additionally, we are exposed to credit risk with respect to our subsidiaries' reinsurers to the extent the reinsurance receivable is not secured by collateral or does not benefit from other credit enhancements. We also bear the risk that a reinsurer may be unwilling to pay amounts we have recorded as reinsurance recoverables for any reason, including that (i) the terms of the reinsurance contract do not reflect the intent of the parties of the contract, (ii) the terms of the contract cannot be legally enforced, (iii) the terms of the contract are interpreted by a court differently than intended, (iv) the reinsurance transaction performs differently than we anticipated due to a flawed design of the reinsurance structure, terms or conditions, or (v) a change in laws and regulations, or in the interpretation of the laws and regulations, materially impacts a reinsurance transaction. The insolvency of one or more of our reinsurers, or inability or unwillingness to make timely payments under the terms of our agreements, could have a material adverse effect on our results of operations and liquidity. For additional information on our reinsurance, see Item 7. MD&A Enterprise Risk Management Insurance Operations Risks AIG Property Casualty Key Insurance Risks Reinsurance Recoverables.

LIQUIDITY, CAPITAL AND CREDIT

Our internal sources of liquidity may be insufficient to meet our needs. We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. If our liquidity is insufficient to meet our needs, we may at the time need to have recourse to third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. The availability and cost of any additional financing at any given time depends on a variety of factors, including general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions and our credit ratings and credit capacity. It is also possible that, as a result of such recourse to external financing, customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, and downgrades in our credit ratings, may limit our ability to access external capital markets at times and on terms favorable to us to meet our capital and liquidity needs or prevent our accessing the external capital markets or other financing sources. For a further discussion of our liquidity, see Item 7. MD&A Liquidity and Capital Resources.

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A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability of financing. A downgrade of our long-term debt ratings by the major rating agencies would require us to post additional collateral payments related to derivative transactions to which we are a party, and could permit the termination of these derivative transactions. This could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of $226 million, and certain of our counterparties would be permitted to elect early termination of contracts.

AIG Parent's ability to access funds from our subsidiaries is limited. As a holding company, AIG Parent depends on dividends, distributions and other payments from its subsidiaries to fund payments due on its obligations, including its outstanding debt. The majority of our investments are held by our regulated subsidiaries. Our subsidiaries may be limited in their ability to make dividend payments or advance funds to AIG Parent in the future because of the need to support their own capital levels or because of regulatory limits.

AIG Parent's ability to support our subsidiaries is limited. AIG Parent has in the past and expects to continue to provide capital to our subsidiaries as necessary to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations, in some cases under support or capital maintenance agreements. AIG Parent has entered into capital maintenance agreements with certain of our insurance subsidiaries that will require it to contribute capital if specific capital levels are breached. If AIG Parent is unable to satisfy a capital need of a subsidiary, the subsidiary could become insolvent or, in certain cases, could be seized by its regulator.

Our subsidiaries may not be able to generate cash to meet their needs due to the illiquidity of some of their investments. Our subsidiaries have investments in certain securities that may be illiquid, including certain fixed income securities and certain structured securities, private company securities, private equity funds and hedge funds, mortgage loans, finance receivables and real estate. Collectively, investments in these securities had a fair value of $49 billion at December 31, 2012. The decline in the U.S. real estate markets and tight credit markets have also materially adversely affected the liquidity of our other securities portfolios, including our residential and commercial mortgage-related securities and investment portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide it, it may be difficult for these subsidiaries to generate additional liquidity by selling, pledging or otherwise monetizing these less liquid investments.

A downgrade in the Insurer Financial Strength ratings of our insurance companies could prevent them from writing new business and retaining customers and business. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance its competitive position. Downgrades of the IFS ratings of our insurance companies could prevent these companies from selling, or make it more difficult for them to succeed in selling, products and services, or result in increased policy cancellations, termination of assumed reinsurance contracts, or return of premiums. Under credit rating agency policies concerning the relationship between parent and subsidiary ratings, a downgrade in AIG Parent's credit ratings could result in a downgrade of the IFS ratings of our insurance subsidiaries.

BUSINESS AND OPERATIONS

Interest rate fluctuations, increased surrenders, investment returns and other events may require our subsidiaries to accelerate the amortization of DAC, and record additional liabilities for future policy benefits. DAC represents deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business. The amortization of DAC associated with our Life and Retirement Services business is affected by factors that include current and expected interest rate fluctuations, surrender rates and investment returns. Changes in these factors may require our subsidiaries to accelerate the amortization of DAC and record additional liabilities for future policy benefits. For example, when interest rates rise, customers may buy a competitor's insurance products with higher anticipated returns. This can lead to an increase in policy loans, policy surrenders, withdrawals of life insurance policies, and withdrawals of annuity contracts, causing an acceleration of the amortization of DAC. If DAC amortization exceeds the fees we earn upon surrender or withdrawals, our results of operations could be negatively affected.

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We regularly review DAC for insurance-oriented, investment-oriented, and retirement services products to assess recoverability. This review involves estimating the future profitability of in-force business and requires significant management judgment. If future profitability is substantially lower than estimated, we could be required to accelerate DAC amortization.

Periodically, we evaluate the estimates used in establishing liabilities for future policy benefits for life and A&H insurance contracts, which include liabilities for certain payout annuities. We evaluate these estimates against actual experience and make adjustments based on judgments about mortality, morbidity, persistency, maintenance expenses, and investment returns, including the interest rate environment and net realized capital gains (losses). If actual experience or estimates result in changes to projected future losses on long duration insurance contracts, we may be required to record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations. For further discussion of DAC and future policy benefits, see Item 7. MD&A Critical Accounting Estimates and Notes 2, 10 and 13 to the Consolidated Financial Statements.

Certain of our products offer guarantees that may decrease our earnings and increase the volatility of our results. We offer variable annuity products that guarantee a certain level of benefits, such as guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). At December 31, 2012, our net liabilities associated with these guaranteed benefits were $1.4 billion. We use reinsurance combined with derivative instruments to mitigate our exposure to these liabilities. While we believe that our actions have mitigated the risks related to guaranteed benefits, our exposure is not fully hedged; in addition, we remain liable if reinsurers or counterparties are unable or unwilling to pay. Finally, downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the liabilities associated with the guaranteed benefits, reducing our net income and shareholders' equity.

Indemnity claims could be made against us in connection with divested businesses. We have provided financial guarantees and indemnities in connection with the businesses we have sold, including ALICO, as described in greater detail in Note 16 to the Consolidated Financial Statements. While we do not currently believe the claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim or claims were successful, it could have a material adverse effect on our results of operations, cash flows and liquidity. See Note 16 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

Our foreign operations expose us to risks that may affect our operations. We provide insurance, investment and other financial products and services to both businesses and individuals in more than 130 countries. A substantial portion of our AIG Property Casualty business is conducted outside the United States, and we intend to continue to grow this business. Operations outside the United States, particularly in developing nations, may be affected by regional economic downturns, changes in foreign currency exchange rates, political upheaval, nationalization and other restrictive government actions, which could also affect our other operations.

The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG Parent, as well as its subsidiaries operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Consequently, our insurance subsidiaries could be prevented from conducting future business in some of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations depending on the magnitude of the event and our financial exposure at that time in that country.

Significant conditions precedent must be satisfied in order to complete the sale of the common stock of ILFC on the agreed terms. Under the terms of the share purchase agreement (Share Purchase Agreement) we entered into for the sale of up to 90% of the common stock of ILFC (the ILFC Transaction) to an entity (the Purchaser) formed on behalf of an investor group, consummation of the ILFC Transaction is subject to the satisfaction or waiver of a number of conditions precedent, such as certain customary conditions and other closing conditions, including the receipt of approvals or non-disapprovals from certain regulatory bodies, including, among others:

- the People's Republic of China National Development and Reform Commission,
- the Committee on Foreign Investment in the United States (CFIUS), and
- other antitrust and regulatory agencies,

in some cases, without the imposition on either party by such agencies of conditions that would qualify as burdensome.

Any relevant regulatory body may refuse its approval or may seek to make its approval subject to compliance by ILFC or the Purchaser with unanticipated or onerous conditions. Even if approval is not required, the regulator may impose requirements on ILFC subsequent to consummation of the ILFC Transaction. We or the Purchaser may not agree to such conditions or requirements and may have a contractual right to terminate the Share Purchase Agreement.

In addition to other customary termination events, the Share Purchase Agreement allows termination (i) by any party if the closing has not occurred on or before May 15, 2013, subject to an extension to June 17, 2013 if certain conditions are met or (ii) by us if Purchaser has not paid the required deposit into an escrow account upon the later of March 15, 2013 and ten days after approval of the transaction by CFIUS.

Because of the closing conditions and termination rights applicable to the ILFC Transaction, completion of the ILFC Transaction is not assured or may be delayed or, even if the transaction is completed, the terms of the sale may need to be significantly restructured.

Failure to complete the ILFC Transaction could negatively affect our businesses and financial results. If the ILFC Transaction is not completed, the ongoing businesses of ILFC and AIG may be adversely affected and we will be subject to several risks, including the following:

- alternative plans to dispose of ILFC, such as through a sale or initial public offering, may be difficult to structure and may take extended periods of time to implement, depending on, among other things, the global economic and regulatory environments and general market conditions;

- we may not be able to realize equivalent or greater value for ILFC under an alternative asset monetization plan which could impact the carrying values of ILFC's assets and liabilities;

- we will have incurred certain significant costs relating to the ILFC Transaction without receiving the benefits of the ILFC Transaction, and may incur further significant costs if an alternative monetization plan is undertaken;

- negative customer perception could adversely affect ILFC's ability to compete for, maintain or win new and existing business in the marketplace; and

- potential further diversion of our management's time and attention.

Significant legal proceedings may adversely affect our results of operations or financial condition. We are party to numerous legal proceedings, including securities class actions and regulatory and governmental investigations. Due to the nature of these proceedings, the lack of precise damage claims and the type of claims we are subject to, we cannot currently quantify our ultimate or maximum liability for these actions. Developments in these unresolved matters could have a material adverse effect on our consolidated financial condition or consolidated results of operations for an individual reporting period. For a discussion of these unresolved matters, see Note 16 to the Consolidated Financial Statements.

If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations. We use computer systems to store, retrieve, evaluate and utilize customer, employee, and company data and information. Some of these systems in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions, including providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, a terrorist attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems could also be subject to unauthorized access, such as physical or electronic break-ins or unauthorized tampering. Like other global companies, we have, from time to time, experienced threats to our data and systems, including malware and computer virus attacks,

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unauthorized access, systems failures and disruptions. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the consequences of personal, confidential or proprietary information being compromised. In some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

In addition, we routinely transmit, receive and store personal, confidential and proprietary information by email and other electronic means. Although we attempt to keep such information confidential, we may be unable to do so in all events, especially with clients, vendors, service providers, counterparties and other third parties who may not have or use appropriate controls to protect confidential information. Furthermore, certain of our businesses are subject to compliance with laws and regulations enacted by U.S. federal and state governments, the European Union or other jurisdictions or enacted by various regulatory organizations or exchanges relating to the privacy and security of the information of clients, employees or others. The compromise of personal, confidential or proprietary information could result in remediation costs, legal liability, regulatory action and reputational harm.

BUSINESS AND OPERATIONS OF ILFC PRIOR TO COMPLETION OF THE ILFC TRANSACTION

We will be subject to the following risks until we complete the ILFC Transaction:

Our aircraft leasing business depends on lease revenues and exposes us to the risk of lessee nonperformance. A decrease in ILFC's customers' ability to meet their obligations to ILFC under their leases may negatively affect our business, results of operations and cash flows.

ILFC's aircraft may become obsolete over time. Aircraft are long-lived assets requiring long lead times to develop and manufacture. Particular models and types of aircraft may become obsolete and less in demand over time, when newer, more advanced and efficient aircraft or aircraft engines are manufactured. This life cycle, however, can be shortened by world events, government regulation or customer preferences. As aircraft in ILFC's fleet approach obsolescence, demand for particular models and types may decrease. This may result in declining lease rates, losses on sales, impairment charges or fair value adjustments and may adversely affect ILFC's business and our consolidated financial condition, results of operations and cash flows.

The residual value of ILFC's aircraft is subject to a number of risks and uncertainties. Technological developments, macro-economic conditions, availability and cost of funding for aviation, and the overall health of the airline industry impact the residual values of ILFC's aircraft. If challenging economic conditions persist for extended periods, the residual values of ILFC's aircraft could be negatively impacted, which could result in future impairments.

COMPETITION AND EMPLOYEES

We face intense competition in each of our businesses. Our businesses operate in highly competitive environments, both domestically and overseas. Our principal competitors are other large multinational insurance organizations, as well as banks, investment banks and other non-bank financial institutions. The insurance industry in particular is highly competitive. Within the U.S., AIG Property Casualty subsidiaries compete with approximately 3,300 other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. AIG Life and Retirement subsidiaries compete in the U.S. with approximately 1,800 life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

The past reduction of our credit ratings and the lingering effects of AIG's negative publicity have made, and may continue to make, it more difficult to compete to retain existing customers and to maintain our historical levels of business with existing customers and counterparties. General insurance and life insurance companies compete through a combination of risk acceptance criteria, product pricing, and terms and conditions. Retirement services companies compete through crediting rates and the issuance of guaranteed benefits. A decline in our position as to any one or more of these factors could adversely affect our profitability.

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Competition for employees in our industry is intense, and we may not be able to attract and retain the highly skilled people we need to support our business. Our success depends, in large part, on our ability to attract and retain key people. Due to the intense competition in our industry for key employees with demonstrated ability, we may be unable to hire or retain such employees. Losing any of our key people also could have a material adverse effect on our operations given their skills, knowledge of our business, years of industry experience and the potential difficulty of promptly finding qualified replacement employees. Our results of operations and financial condition could be materially adversely affected if we are unsuccessful in attracting and retaining key employees.

Mr. Benmosche may be unable to continue to provide services to AIG due to his health. Robert Benmosche, our President and Chief Executive Officer, was diagnosed with cancer and has been undergoing treatment for his disease. He continues to fulfill all of his responsibilities and has stated his desire to continue in such roles beyond 2013. However, his condition may change and prevent him from continuing to perform these roles.

Employee error and misconduct may be difficult to detect and prevent and may result in significant losses. There have been a number of cases involving fraud or other misconduct by employees in the financial services industry in recent years and we run the risk that employee misconduct could occur. Instances of fraud, illegal acts, errors, failure to document transactions properly or to obtain proper internal authorization, or failure to comply with regulatory requirements or our internal policies may result in losses. It is not always possible to deter or prevent employee misconduct, and the controls that we have in place to prevent and detect this activity may not be effective in all cases.

REGULATION

Our businesses are heavily regulated and changes in regulation may affect our operations, increase our insurance subsidiary capital requirements or reduce our profitability. Our operations generally, and our insurance subsidiaries, in particular, are subject to extensive supervision and regulation by national authorities and by the various jurisdictions in which we do business. Supervision and regulation relate to numerous aspects of our business and financial condition. The primary purpose of insurance regulation is the protection of our insurance contract holders, and not our investors. The extent of domestic regulation varies, but generally is governed by state statutes. These statutes delegate regulatory, supervisory and administrative authority to state insurance departments.

We strive to maintain all required licenses and approvals. However, our businesses may not fully comply with the wide variety of applicable laws and regulations. The relevant authority's interpretation of the laws and regulations also may change from time to time. Regulatory authorities have relatively broad discretion to grant, renew or revoke licenses and approvals. If we do not have the required licenses and approvals or do not comply with applicable regulatory requirements, these authorities could preclude or temporarily suspend us from carrying on some or all of our activities or impose substantial fines. Further, insurance regulatory authorities have relatively broad discretion to issue orders of supervision, which permit them to supervise the business and operations of an insurance company.

In the U.S., the risk based capital (RBC) formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Virtually every state has adopted, in substantial part, the RBC Model Law promulgated by the National Association of Insurance Commissioners (NAIC), which specifies the regulatory actions the insurance regulator may take if an insurer's RBC calculations fall below specific thresholds. Those actions range from requiring an insurer to submit a plan describing how it would regain a specified RBC ratio, to a mandatory regulatory takeover of the company.

The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG Parent, as well as its subsidiaries operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to our subsidiaries are subject to modification and revocation. Thus, our insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. Adverse actions from any single country could adversely affect our results of operations, liquidity and financial condition, depending on the magnitude of the event and our financial exposure at that time in that country.

Our status as a savings and loan holding company and the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) will subject us to substantial additional federal regulation, either or both of which may materially and adversely affect our businesses, results of operations and cash flows. On July 21, 2010, Dodd-Frank, which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly created government agencies and bodies

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to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect our businesses, results of operations or cash flows, or require us to raise additional capital.

We are regulated by the Board of Governors of the Federal Reserve System (FRB) and subject to its examination, supervision and enforcement authority and reporting requirements as a savings and loan holding company (SLHC). The FRB, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have proposed revised minimum leverage and risk-based capital requirements that would apply to all bank holding companies and SLHCs, as well as to insured depository institutions, such as AIG Federal Savings Bank. As a result of our regulation by the FRB as an SLHC:

- The FRB exercises general supervisory authority over us.
- The FRB, as a prudential matter, may limit our ability to pay dividends and purchase shares of AIG Common Stock.
- The FRB is required to impose minimum leverage and risk-based capital requirements on us that are not less than those applicable to insured depository institutions.

In addition, under Dodd-Frank we may separately become subject to the examination, enforcement and supervisory authority of the FRB as a nonbank systemically important financial institution (SIFI). In October 2012, we received a notice that we are under consideration by the Financial Stability Oversight Council (Council) for a proposed determination that we are a SIFI. The notice stated that we will be reviewed in Stage 3 of the SIFI determination process described in the Council's interpretive guidance for nonbank financial company determinations. If we are designated as a SIFI:

- We would become subject to stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions.
- We would be subject to stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress.
- We would become subject to a new early remediation regime process to be administered by the FRB.
- If we are designated as a SIFI and determined to be a "grave threat" to U.S. financial stability:
- We would be required to maintain a debt-to-equity ratio of no more than 15:1.
- The FRB may:
  - limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;
  - restrict our ability to offer specified financial products;
  - require us to terminate specified activities;

- impose conditions on how we conduct our activities; or

- with approval of the Council, and a determination that the foregoing actions are inadequate to mitigate a threat to U.S. financial stability, require us to sell or otherwise transfer assets or off-balance-sheet items to unaffiliated entities.

In addition, the regulations applicable to SIFIs and to SLHCs, when all have been adopted as final rules, may differ materially from each other.

See Item 1. Business Regulation for further discussion of this potential regulation.

Further, if we continue to control AIG Federal Savings Bank or another insured depository institution, as of July 21, 2014, we will be required to conform to the "Volcker Rule", which prohibits "proprietary trading" and the sponsoring or investing in "covered funds". The term "covered funds" includes hedge, private equity or similar funds and, in certain cases, issuers of asset backed securities if such securities have equity-like characteristics. These prohibitions could have a substantial impact on our investment portfolios as they are currently managed. The Volcker Rule, as

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proposed, contains an exemption for proprietary trading by insurance companies for their general account, but the final breadth and scope of this exemption cannot be predicted. Even if we no longer controlled an insured depository institution, Dodd-Frank authorizes the FRB to subject SIFIs to additional capital and quantitative limitations if they engage in activities prohibited for depository institutions by the Volcker Rule.

In addition, Dodd-Frank establishes a new framework for regulation of over-the-counter (OTC) derivatives under which we may have to provide or increase collateral under the terms of bilateral agreements with derivatives counterparties. These additional obligations to post collateral or the costs of assignment, termination or obtaining alternative credit could have a material adverse effect on us. This new framework may also increase the cost of conducting a hedging program or have other effects materially adverse to us.

We cannot predict the requirements of the regulations ultimately adopted, the level and magnitude of supervision we may become subject to, or how Dodd-Frank and such regulations will affect the financial markets generally or our businesses, results of operations or cash flows. It is possible that the regulations adopted under Dodd-Frank and our regulation by the FRB as an SLHC could significantly alter our business practices, require us to raise additional capital, impose burdensome and costly requirements and additional costs. Some of the regulations may also affect the perceptions of regulators, customers, counterparties, creditors or investors about our financial strength and could potentially affect our financing costs.

The USA PATRIOT Act, the Office of Foreign Assets Control and similar laws that apply to us may expose us to significant penalties. The operations of our subsidiaries are subject to laws and regulations, including, in some cases, the USA PATRIOT Act of 2001, which require companies to know certain information about their clients and to monitor their transactions for suspicious activities. Also, the Department of the Treasury's Office of Foreign Assets Control administers regulations requiring U.S. persons to refrain from doing business, or allowing their clients to do business through them, with certain organizations or individuals on a prohibited list maintained by the U.S. government or with certain countries. The United Kingdom, the European Union and other jurisdictions maintain similar laws and regulations. Although we have instituted compliance programs to address these requirements, there are inherent risks in global transactions.

Attempts to mitigate the impact of Regulation XXX and Actuarial Guideline AXXX may fail in whole or in part resulting in an adverse effect on our financial condition and results of operations. The NAIC Model Regulation "Valuation of Life Insurance Policies" ("Regulation XXX") requires insurers to establish additional statutory reserves for term life insurance policies with long-term premium guarantees and universal life policies with secondary guarantees. In addition, NAIC Actuarial Guideline 38 (AXXX) (Guideline AXXX) clarifies the application of Regulation XXX as to certain universal life insurance policies with secondary guarantees. The application of Regulation XXX and Guideline AXXX involves numerous interpretations. At times, there may be differences of opinion between management and state insurance departments about the application of these and other actuarial guidelines. Consequently, a state insurance regulator may require greater reserves to support insurance liabilities than management has estimated.

We have implemented intercompany reinsurance and capital management actions to mitigate the capital impact of Regulation XXX and Guideline AXXX. In so doing, we focus on identifying cost-effective opportunities to manage our intercompany reinsurance transactions, particularly with respect to certain redundant statutory reserve requirements on Regulation XXX and Guideline AXXX reserves. Our efforts have included the use of an intercompany reinsurance arrangement for Regulation XXX and Guideline AXXX reserves and the use of letters of credit to support the reinsurance provided by our affiliated reinsurance subsidiary. All of these letters of credit are due to mature on December 31, 2015. The reinsurance and capital management actions we have taken may not be sufficient to offset regulatory, rating agency or other requirements. In that case, we could be required to increase statutory reserves or incur higher operating and/or tax costs. If we are unable to implement actions to mitigate the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products, we may reduce the sales of these products or incur higher operating costs or it may impact our sales of these products.

New regulations promulgated from time to time may affect our businesses, results of operations, financial condition and ability to compete effectively. Legislators and regulators may periodically consider various proposals that may affect the profitability of certain of our businesses. New regulations may even affect our ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions. These proposals could also impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities,

geography, government support or other criteria). It is uncertain whether and how these and other such proposals would apply to us or our competitors or how they could impact our consolidated results of operations, financial condition and ability to compete effectively.

An "ownership change" could limit our ability to utilize tax losses and credits carryforwards to offset future taxable income. As of December 31, 2012, we had a U.S. federal net operating loss carryforward of approximately $40.9 billion, $17.3 billion in capital loss carryforwards and $5.5 billion in foreign tax credits (tax losses and credits carryforwards). Our ability to use such tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax losses and credits carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax losses and credits carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change. If we were to experience an "ownership change", it is possible that a significant portion of our tax losses and credits carryforwards could expire before we would be able to use them to offset future taxable income.

On March 9, 2011, our Board of Directors adopted a Tax Asset Protection Plan (the Plan) to help protect these tax losses and credits carryforwards. At our 2011 Annual Meeting of Shareholders, shareholders ratified the Plan. At the same time, shareholders adopted a protective amendment to our Restated Certificate of Incorporation, which is designed to prevent certain transfers of AIG Common Stock that could result in an "ownership change". The Plan is designed to reduce the likelihood of an "ownership change" by (i) discouraging any person or group from becoming a 4.99 percent shareholder and (ii) discouraging any existing 4.99 percent shareholder from acquiring additional shares of AIG Common Stock. The Protective Amendment generally restricts any transfer of AIG Common Stock that would (i) increase the ownership by any person to 4.99 percent or more of AIG stock then outstanding or (ii) increase the percentage of AIG stock owned by a Five Percent Stockholder (as defined in the Plan). Despite the intentions of the Plan and the Protective Amendment to deter and prevent an "ownership change", such an event may still occur. In addition, the Plan and the Protective Amendment may make it more difficult and more expensive to acquire us, and may discourage open market purchases of AIG Common Stock or a non-negotiated tender or exchange offer for AIG Common Stock. Accordingly, the Plan and the Protective Amendment may limit a shareholder's ability to realize a premium over the market price of AIG Common Stock in connection with any stock transaction.

Changes in tax laws could increase our corporate taxes, reduce our deferred tax assets or make some of our products less attractive to consumers. Changes in tax laws or their interpretation could negatively impact our business or results. Some proposed changes could have the effect of increasing our effective tax rate by reducing deductions or increasing income inclusions, such as by limiting rules that allow for deferral of tax on certain foreign insurance income. Conversely, other changes, such as lowering the U.S. federal corporate tax rate discussed recently in the context of tax reform, could reduce the value of our deferred tax assets. In addition, changes in the way foreign taxes can be credited against U.S. taxes, methods for allocating interest expense, the ways insurance companies calculate and deduct reserves for tax purposes, and impositions of new or changed premium, value added and other indirect taxes could increase our tax expense, thereby reducing earnings.

In addition to proposing to change the taxation of corporations in general and insurance companies in particular, the Executive Branch of the Federal Government and Congress have recently considered proposals that could increase taxes on owners of insurance products. For example, there are proposals that would limit the deferral of tax on income from life and annuity contracts relative to other investment products. These changes could reduce demand in the U.S. for life insurance and annuity contracts, or cause consumers to shift from these contracts to other investments, which would reduce our income due to lower sales of these products or potential increased surrenders of in-force business.

Governments' need for additional revenue makes it likely that there will be continued proposals to change tax rules in ways that would reduce our earnings. However, it remains difficult to predict whether or when there will be any tax law changes having a material adverse effect on our financial condition or results of operations.

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ESTIMATES AND ASSUMPTIONS

Actual experience may differ from management's estimates used in the preparation of financial statements. Our financial statements are prepared in conformity with U.S. Generally Accepted Accounting Principles, which requires the application of accounting policies that often involve a significant degree of judgment. The accounting policies that we consider most dependent on the application of estimates and assumptions, and therefore may be viewed as critical accounting estimates, are described in Item 7. MD&A Critical Accounting Estimates. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates are based on judgment, current facts and circumstances, and, when applicable, internally developed models. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on our consolidated financial statements.

Our ability to achieve our long-term goals, including return on equity (ROE) and earnings per share (EPS), is based on significant assumptions, and our actual results may differ, possibly materially, from these goals. In setting our long-term goals for ROE and EPS, described in Part I, Item 2. MD&A Long-Term Aspirational Goals in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, we made significant assumptions that include, among other things:

- the general conditions of the markets in which we operate;
- revenues and combined ratios of our subsidiaries;
- investment yields;
- our subsidiaries' capacity to distribute dividends to AIG Parent;
- our ability to deploy capital towards share purchases, dividend payments, acquisitions or organic growth;
- the impact of a change in our credit ratings on our ability to maintain financial leverage;
- the exclusion of the reversal of the tax valuation allowance on shareholders' equity in calculating our long-term ROE goal;
- effectiveness of our cost rationalization measures;
- regulatory approval of our planned actions (including share purchases, dividend payments or acquisitions);
- the overall credit rating implications of our proposed strategic actions; and
- general financial market and interest rate conditions.

These assumptions are not historical facts but instead represent our expectations about future events. Many of these events, by their nature, are inherently subject to significant uncertainties and contingencies and are outside our control. It is very likely that actual events and results will differ from some or all of the assumptions we made. While we remain committed to our long-term aspirational goals, our actual results are likely to differ from these aspirational goals and the difference may be material and adverse.

The aspirational goals and their underlying assumptions are forward-looking statements. Shareholders and other investors should not place undue reliance on any of these assumptions or aspirational goals. We are not under any obligation (and expressly disclaim any obligation) to update or alter any assumptions, goals, projections or other related statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. See Cautionary Statement Regarding Forward-Looking Information for additional information about forward-looking statements.

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ITEM 1B / UNRESOLVED STAFF COMMENTS

There are no material unresolved written comments that were received from the SEC staff 180 days or more before the end of AIG's fiscal year relating to AIG's periodic or current reports under the Exchange Act.

ITEM 2 / PROPERTIES

AIG and its subsidiaries operate from over 400 offices in the United States and approximately 600 offices in over 75 foreign countries. The following offices are located in buildings in the United States owned by AIG and its subsidiaries:

AIG Property Casualty:

175 Water Street in New York, New York

Wilmington, Delaware

Stevens Point, Wisconsin

San Juan, Puerto Rico

AIG Life and Retirement:

Amarillo, Ft. Worth and Houston, Texas

Nashville, Tennessee

Other Operations:

Greensboro and Winston-Salem, North Carolina

Livingston, New Jersey

Stowe, Vermont

In addition, AIG Property Casualty owns offices in approximately 20 foreign countries and jurisdictions including Argentina, Bermuda, Colombia, Ecuador, Japan, Mexico, the U.K., Taiwan, and Venezuela. The remainder of the office space utilized by AIG and its subsidiaries is leased. AIG believes that its leases and properties are sufficient for its current purposes.

LOCATIONS OF CERTAIN ASSETS

As of December 31, 2012, approximately 11 percent of the consolidated assets of AIG were located outside the U.S. and Canada, including $260 million of cash and securities on deposit with regulatory authorities in those locations. See Note 3 to the Consolidated Financial Statements for additional geographic information. See Note 7 to the Consolidated Financial Statements for total carrying values of cash and securities deposited by our insurance subsidiaries under requirements of regulatory authorities.

Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which AIG's business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits. See also Item 1A. Risk Factors Business and Operations for additional information.

ITEM 3 / LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 16 Legal Contingencies to the Consolidated Financial Statements, which is incorporated herein by reference.

ITEM 4 / MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5 / MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

AIG's common stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange (NYSE: AIG), as well as on the Tokyo Stock Exchange. There were approximately 37,550 stockholders of record of AIG Common Stock as of January 31, 2013.

The following table presents high and low closing sale prices on the New York Stock Exchange Composite Tape and the dividends paid per share of AIG Common Stock for each quarter of 2012 and 2011:

	2012			2011		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First quarter	**$ 30.83**	**$ 23.54**	**$**	$ 61.18*	$ 34.95	$
Second quarter	**34.76**	**27.21**		35.00	27.23	
Third quarter	**35.02**	**30.15**		30.21	21.61	
Fourth quarter	**37.21**	**30.68**		26.34	20.07	

* Includes the effect of the AIG Common Stock trading with due bills for the dividend paid in the form of warrants.

From November 2008 through January 14, 2011, AIG was unable to pay dividends under the terms of certain series of AIG preferred stock that were then outstanding. From January 14, 2011 to May 2011, we were unable to pay dividends on AIG Common Stock, due to restrictions relating to the AIG Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock). The Series G Preferred Stock was cancelled in connection with AIG's public offering of AIG Common Stock in May 2011. Our ability to pay dividends has not been subject to any contractual restrictions since the cancellation of the Series G Preferred Stock.

Any payment of dividends must be approved by AIG's Board of Directors. In determining whether to pay any dividend, our Board of Directors may consider AIG's financial position, the performance of our businesses, our consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, and other factors. AIG is subject to restrictions on the payment of dividends and purchases of AIG Common Stock as a result of being regulated as a savings and loan holding company. AIG may become subject to other restrictions on the payment of dividends and purchases of AIG Common Stock if it is designated a SIFI. See Item 1A. Risk Factors Regulation for further discussion of this regulation.

For a discussion of certain restrictions on the payment of dividends to AIG by some of its insurance subsidiaries, see Item 1A. Risk Factors Liquidity, Capital and Credit AIG Parent's ability to access funds from our subsidiaries is limited, and Note 17 to the Consolidated Financial Statements.

EQUITY COMPENSATION PLANS

Our table of equity compensation plans will be included in the definitive proxy statement for AIG's 2013 Annual Meeting of Shareholders. The definitive proxy statement will be filed with the SEC no later than 120 days after the end of AIG's fiscal year pursuant to Regulation 14A.

PURCHASES OF EQUITY SECURITIES

We purchased a total of 421,228,855 shares of AIG Common Stock for approximately $13.0 billion in four offerings of AIG Common Stock by the Department of the Treasury during 2012. All purchases were authorized by our Board of

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Directors. At December 31, 2012, our Board had not authorized any additional purchases. See Note 17 to the Consolidated Financial Statements for additional information on AIG share purchases.

COMMON STOCK PERFORMANCE GRAPH

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2007 to December 31, 2012) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies (the New Peer Group) consisting of fifteen insurance companies to which we compare our business and operations:

ACE Limited	Lincoln National Corporation
AEGON, N.V.	MetLife, Inc.
Aflac Incorporated	Principal Financial Group, Inc.
Allianz Group	Prudential Financial, Inc.
AXA Group	The Travelers Companies, Inc.
The Chubb Corporation	XL Capital Ltd.
CNA Financial Corporation	Zurich Insurance Group
Hartford Financial Services Group, Inc.	

The Performance Graph also compares the cumulative total shareholder return on AIG Common Stock to the return of a group of companies (the Old Peer Group) consisting of ten insurance companies to which we compared our business and operations in our Annual Report on Form 10-K for the year ended December 31, 2011:

ACE Limited	MetLife, Inc.
Allianz Group	Prudential Financial, Inc.
The Chubb Corporation	The Travelers Companies, Inc.
Hartford Financial Services Group, Inc.	XL Capital Ltd.

Lincoln National Corporation	Zurich Insurance Group

AEGON, N.V., Aflac Incorporated, AXA Group, CNA Financial Corporation and Principal Financial Group, Inc. were added to the New Peer Group because we believe the changes result in a peer group that is more comparable to our overall business and operations. Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization.

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Five-Year Cumulative Total Shareholder Returns

Value of $100 Invested on December 31, 2007

	As of December 31,					
	2007	2008	2009	2010	2011	2012
AIG	$ 100.00	$ 2.91	$ 2.77	$ 5.33	$ 2.62	$ 3.98
S&P 500	100.00	63.00	79.67	91.68	93.61	108.59
New Peer Group	100.00	55.09	64.18	69.34	60.13	77.21
Old Peer Group	100.00	55.12	65.95	76.00	68.06	85.32

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ITEM 6 / SELECTED FINANCIAL DATA

The Selected Consolidated Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying notes included elsewhere herein.

	Years Ended December 31,				
(in millions, except per share data)	**2012**	**2011**	**2010[(a)]**	**2009[(a)]**	**2008**
Revenues:					
Premiums	**$ 38,011**	$ 38,990	$ 45,319	$ 48,583	$ 60,147
Policy fees	**2,791**	2,705	2,710	2,656	2,990
Net investment income	**20,343**	14,755	20,934	18,992	10,453
Net realized capital gains (losses)	**929**	701	(716)	(3,787)	(50,426)
Other income	**3,582**	2,661	4,582	3,729	(34,941)
Total revenues	**65,656**	59,812	72,829	70,173	(11,777)
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**31,977**	33,450	41,392	45,314	45,447
Interest credited to policyholder account balances	**4,362**	4,467	4,487	4,611	5,582
Amortization of deferred acquisition costs	**5,709**	5,486	5,821	6,670	6,425
Other acquisition and insurance expenses	**9,235**	8,458	10,163	9,815	14,783
Interest expense	**2,319**	2,444	6,742	13,237	14,440
Net loss on extinguishment of debt	**9**	2,847	104		
Net (gain) loss on sale of properties and divested businesses	**2**	74	(19,566)	1,271	
Other expenses	**2,721**	2,470	3,439	5,282	5,842
Total benefits, claims and expenses	**56,334**	59,696	52,582	86,200	92,519
Income (loss) from continuing operations before income taxes[(b)]	**9,322**	116	20,247	(16,027)	(104,296)
Income taxes expense (benefit)	**1,570**	(19,424)	6,993	(2,551)	(8,097)
Income (loss) from continuing operations	**7,752**	19,540	13,254	(13,476)	(96,199)
Income (loss) from discontinued operations, net of taxes	**(4,052)**	1,790	(969)	3,750	(6,683)
Net income (loss)	**3,700**	21,330	12,285	(9,726)	(102,882)
Net income (loss) attributable to AIG	**3,438**	20,622	10,058	(8,362)	(101,784)
Income (loss) per common share attributable to AIG common shareholders					
Basic and diluted					
Income (loss) from continuing operations	**4.44**	10.03	16.50	(98.52)	(725.89)
Income (loss) from discontinued operations	**(2.40)**	0.98	(1.52)	27.15	(49.91)
Net income (loss) attributable to AIG	**2.04**	11.01	14.98	(71.37)	(775.80)
Dividends declared per common share					8.40
Year-end balance sheet data:					
Total investments	**375,824**	410,438	410,412	601,165	636,912
Total assets	**548,633**	553,054	675,573	838,346	848,552
Long-term debt	**48,500**	75,253	106,461	136,733	177,485

Total liabilities	**449,630**	442,138	568,363	748,550	797,692
Total AIG shareholders' equity	**98,002**	101,538	78,856	60,585	40,844
Total equity	**98,669**	102,393	106,776	88,837	48,939
Book value per share[a]	**66.38**	53.53	561.40	448.54	303.71
Book value per share, excluding Accumulated other comprehensive income (loss)[a][c]	**57.87**	50.11	498.25	400.90	353.97
AIG Property Casualty combined ratio[d]	**108.6**	108.8	116.8	108.4	102.1
Other data (from continuing operations):					
Other-than-temporary impairments	**1,167**	1,280	3,039	6,696	41,867
Adjustment to federal and foreign deferred tax valuation allowance	**(1,907)**	(18,307)	1,361	2,986	22,172
Amortization of prepaid commitment fee		49	3,471	8,359	9,279
Catastrophe-related losses	**$ 2,652**	$ 3,307	$ 1,076	$ 53	$ 1,840

(a) Comparability between 2010 and 2009 data is affected by the deconsolidation of AIA in the fourth quarter of 2010. Book value per share, excluding Accumulated other comprehensive income (loss) is a non-GAAP measure. See Item 7. MD&A Use of Non-GAAP Measures for additional information. Comparability of 2010, 2009 and 2008 is affected by a one for twenty reverse stock split.

(b) Reduced by fourth quarter reserve strengthening charges of $4.2 billion and $2.2 billion in 2010 and 2009, respectively, related to the annual review of AIG Property Casualty loss and loss adjustment reserves.

(c) Amounts for periods after December 31, 2008 have been revised to reflect reclassification of income taxes from AOCI to additional paid in capital to correct the presentation of components of AIG Shareholders' Equity. See Note 1 to the Consolidated Financial Statements for additional information on the reclass.

(d) See Item 7. MD&A Results of Operations AIG Property Casualty Operations for a reconciliation of the adjusted combined ratio.

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Changes In Accounting For Acquisition Costs

Reflects changes from the adoption of the new accounting standard related to deferred acquisition costs for 2009 and 2008, as set out in further detail below. See Note 2 to the Consolidated Financial Statements for a description of the effect of the adoption of the new accounting standards on 2011 and 2010 periods, which is also reflected in the data presented above.

Year Ended December 31, 2009 *(dollars in millions, except per share data)*		As Previously Reported[a]		Effect of Change		As Currently Reported
Income (loss) from continuing operations	$	(13,907)	$	431	$	(13,476)
Income (loss) from discontinued operations, net of income tax[b]		1,594		2,156		3,750
Net income (loss)		(12,313)		2,587		(9,726)
Net income (loss) attributable to AIG	$	(10,949)	$	2,587	$	(8,362)
Net income (loss) attributable to AIG common shareholders	$	(12,244)	$	2,587	$	(9,657)
Income (loss) per share attributable to AIG common shareholders:						
Basic and diluted:						
Income (loss) from continuing operations	$	(100.70)	$	3.18	$	(98.52)
Income from discontinued operations	$	11.22	$	15.93	$	27.15
Income (loss) attributable to AIG	$	(90.48)	$	19.11	$	(71.37)
December 31, 2009 balance sheet data:						
Total assets	$	847,585	$	(9,239)	$	838,346
Total liabilities		748,550				748,550
Total AIG shareholders' equity		69,824		(9,239)		60,585
Total equity		98,076		(9,239)		88,837
Other data (from continuing operations):						
Adjustment to federal and foreign deferred tax valuation allowance	$	3,137	$	(151)	$	2,986

Year Ended December 31, 2008 *(in millions, except per share data)*		As Previously Reported[a]		Effect of Change		As Currently Reported
Loss from continuing operations	$	(94,022)	$	(2,177)	$	(96,199)
Loss from discontinued operations, net of tax		(6,365)		(318)		(6,683)
Net loss		(100,387)		(2,495)		(102,882)
Net loss attributable to AIG	$	(99,289)	$	(2,495)	$	(101,784)
Net loss attributable to AIG common shareholders	$	(99,689)	$	(2,495)	$	(102,184)
Loss per common share attributable to AIG common shareholders:						
Basic and diluted:						
Loss from continuing operations	$	(709.35)	$	(16.54)	$	(725.89)
Loss from discontinued operations	$	(47.50)	$	(2.41)	$	(49.91)
Net loss attributable to AIG	$	(756.85)	$	(18.95)	$	(775.80)
December 31, 2008 balance sheet data:						
Total assets	$	860,418	$	(11,866)	$	848,552

Total liabilities		797,692				797,692
Total AIG shareholders' equity		52,710		(11,866)		40,844
Total equity		60,805		(11,866)		48,939
Other data (from continuing operations):						
Adjustment to federal and foreign deferred tax valuation allowance	$	20,121	$	2,051	$	22,172

(a) Includes the effect of the reclassification of ILFC as discontinued operations.

(b) Includes an adjustment to the loss accrual related to the sale of Nan Shan of $2.3 billion.

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Items Affecting Comparability Between Periods

The following are significant developments that affected multiple periods and financial statement captions. Other items that affected comparability are included in the footnotes to the table presented immediately above.

Market Events in 2008 and 2009

AIG was significantly affected by the market turmoil in late 2008 and early 2009 and recognized other-than-temporary impairment charges in 2008 related primarily to collateralized mortgage-backed securities, other structured securities and securities of financial institutions; losses related to the change in AIG's intent and ability to hold to recovery certain securities; and losses related to AIG's securities lending program.

In 2008, AIG also recognized unrealized market valuation losses representing the change in fair value of its super senior credit default swap portfolio, established a deferred tax valuation allowance and experienced an unprecedented strain on liquidity. This strain led to several transactions with the FRBNY and the Department of the Treasury. See Note 25 to the Consolidated Financial Statements for further discussion of these transactions and relationships.

FRBNY Activity and Effect on Interest Expense in 2008, 2009 and 2010

The decline in interest expense in 2010 was due primarily to a reduced weighted-average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset related to the partial repayment of the FRBNY Credit Facility. On January 14, 2011, AIG repaid the remaining $20.7 billion and terminated this facility, resulting in a net $3.3 billion pretax charge in the first quarter of 2011, representing primarily the accelerated amortization of the remaining prepaid commitment fee asset included in Net loss on extinguishment of debt. See Note 25 to the Consolidated Financial Statements for further discussion of the Recapitalization.

As a result of the closing of the Recapitalization on January 14, 2011, the preferred interests (the SPV Preferred Interests) in the special purpose vehicles that held remaining AIA shares and the proceeds of the AIA initial public offering and the ALICO sale (the SPVs) were transferred to the Department of the Treasury. After such closing, the SPV Preferred Interests were not considered permanent equity on AIG's Consolidated Balance Sheet and were classified as redeemable non-controlling interests.

Asset Dispositions in 2010, 2011 and 2012

On December 9, 2012, we announced the agreement to sell up to 90% of ILFC and executed multiple asset dispositions in 2010 and 2011, as further discussed in Note 4 to the Consolidated Financial Statements, including the completion of an initial public offering of AIA in 2010 for which AIG recognized an $18.1 billion gain.

Adjustment to Federal Deferred Tax Valuation Allowance in 2008, 2009, 2010, 2011 and 2012

As further discussed in Note 24 to the Consolidated Financial Statements, AIG concluded that $18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statement of Operations in 2011. The valuation allowance resulted primarily from losses subject to U.S. income taxes recorded from 2008 through 2010.

Capitalization and Book Value Per Share

As a result of the closing of the Recapitalization on January 14, 2011, the remaining SPV Preferred Interests held by the FRBNY of approximately $26.4 billion were purchased by AIG and transferred to the Department of the Treasury. The SPV Preferred Interests were no longer considered permanent equity on AIG's Consolidated Balance Sheet, and were classified as redeemable non-controlling interests. See Note 18 to the Consolidated Financial Statements for further discussion.

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The following table presents pro forma ratios as if the Recapitalization had been consummated in 2008 and a reconciliation of book value per share to book value per share, excluding Accumulated other comprehensive income (loss), which is a non-GAAP measure. See Item 7. MD&A Use of Non-GAAP Measures for additional information.*

	Years Ended December 31,				
(in millions, except per share data)	**2012**	**2011**	**2010**	**2009**	**2008**
Total AIG shareholders' equity	**$ 98,002**	$ 101,538	$ 78,856	$ 60,585	$ 40,844
Recapitalization			(3,328)		
Value on conversion of equity units			2,169	5,880	5,880
Pro forma shareholders' equity	**98,002**	101,538	77,697	66,465	46,724
Accumulated other comprehensive income (loss)	**12,574**	6,481	8,871	6,435	(6,759)
Total AIG shareholders' equity, excluding Accumulated other comprehensive income (loss)	**$ 85,428**	$ 95,057	$ 69,985	$ 54,150	$ 47,603
Total common shares outstanding	**1,476,321,935**	1,896,821,482	140,463,159	135,070,907	134,483,454
Issuable for equity units			2,854,069	7,736,904	7,736,904
Shares assumed converted			1,655,037,962	1,655,037,962	1,655,037,962
Pro forma common shares outstanding	**1,476,321,935**	1,896,821,482	1,798,355,190	1,797,845,773	1,797,258,320
Pro forma book value per share	**N/A**	**N/A**	$ 43.20	$ 36.97	$ 26.00
Pro forma book value per share, excluding Accumulated other comprehensive income (loss)	**N/A**	**N/A**	$ 38.27	$ 33.39	$ 29.76

* Amounts for periods after December 31, 2008 have been revised to reflect reclassification of income taxes from AOCI to additional paid in capital to correct the presentation of components of AIG Shareholders' Equity. See Note 1 to the Consolidated Financial Statements for additional information on the reclass.

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ITEM 7 / MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

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

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

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

AIG's strategy for risk management;

AIG's generation of deployable capital;

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

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

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

the revenues and combined ratios of AIG's subsidiaries.

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

changes in market conditions;

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

significant legal proceedings;

the timing and applicable requirements of any new regulatory framework to which AIG is subject as a savings and loan holding company (SLHC), and if such a determination is made, as a systemically important financial institution (SIFI);

concentrations in AIG's investment portfolios;

actions by credit rating agencies;

judgments concerning casualty insurance underwriting and insurance liabilities;

judgments concerning the recognition of deferred tax assets;

judgments concerning deferred policy acquisition costs (DAC) recoverability; and

such other factors discussed in:

this Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A); and

Part I, Item 1A. Risk Factors of this Annual Report on Form 10-K.

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

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The MD&A is organized as follows:

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Throughout the MD&A, we use certain terms and abbreviations which are summarized in the Glossary and Acronyms on pages 195 and 199, respectively.

AIG has incorporated into this discussion a number of cross-references to additional information included throughout this Annual Report on Form 10-K to assist readers seeking additional information related to a particular subject.

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Use of Non-GAAP Measures

In Item 6. Selected Financial Data and throughout this MD&A, we present AIG's financial condition and results of operations in the way we believe will be most meaningful, representative and most transparent. Some of the measurements we use are "non-GAAP financial measures" under SEC rules and regulations. GAAP is the acronym for "accounting principles generally accepted in the United States." The non-GAAP financial measures we present may not be comparable to similarly-named measures reported by other companies.

Book Value Per Share Excluding Accumulated Other Comprehensive Income (Loss) (AOCI) is presented in Item 6. Selected Financial Data and is used to show the amount of our net worth on a per-share basis. We believe Book Value Per Share Excluding AOCI is useful to investors because it eliminates the effect of non-cash items that can fluctuate significantly from period to period, including changes in fair value of our available for sale portfolio and foreign currency translation adjustments. Book Value Per Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding. The reconciliation to book value per share, the most comparable GAAP measure, is presented in Item 6. Selected Financial Data.

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

AIG **After-tax operating income (loss)** is derived by excluding the following items from net income (loss): income (loss) from discontinued operations, net loss (gain) on sale of divested businesses, income from divested businesses, legacy FIN 48 and other tax adjustments, legal reserves (settlements) related to "legacy crisis matters," deferred income tax valuation allowance (releases) charges, amortization of the Federal Reserve Bank of New York prepaid commitment fee asset, changes in fair value of AIG Life and Retirement fixed income securities designated to hedge living benefit liabilities, change in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital (gains) losses, (gain) loss on extinguishment of debt, net realized capital (gains) losses, non-qualifying derivative hedging activities, excluding net realized capital (gains) losses and bargain purchase gain. "Legacy crisis matters" include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis. It also includes legal fees incurred by AIG as the plaintiff in connection with such legal matters.

AIG Property Casualty

Operating income (loss): In 2012, AIG Property Casualty revised its non-GAAP income measure from underwriting income (loss) to operating income (loss), which includes both underwriting income (loss) and net investment income, but not net realized capital (gains) losses or other (income) expense, legal settlements related to legacy crisis matters described above and bargain purchase gain. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expense and underwriting expenses; which consist of the acquisition costs and general operating expenses;

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

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

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Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of $10 million each.

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

AIG Life and Retirement

Operating income (loss): In 2012, we revised our definition of operating income (loss). Operating income (loss) is derived by excluding the following items from net income (loss): legal settlements related to legacy crisis matters described above, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses. We believe that Operating income (loss) is useful because excluding these volatile items permits investors to better assess the operating performance of the underlying business by highlighting the results from ongoing operations.

Premiums, deposits and other considerations: includes life insurance premiums and deposits on annuity contracts and mutual funds.

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

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

Executive Overview

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

Executive Summary

AIG made solid progress toward many of its strategic objectives in 2012.

We fully repaid governmental support as a result of the Department of the Treasury's sale of its remaining shares of AIG common stock, par value $2.50 per share (AIG Common Stock).*

We improved our financial and operational performance, leading to a third consecutive year of profitability:

AIG Property Casualty reported improved operating income and the business also has continued to experience positive pricing trends.

AIG Life and Retirement assets under management grew significantly in 2012 from deposits and net flows from individual variable annuities and retail mutual funds and appreciation due to higher equity markets. We enhanced spread income and actively managed through the low interest rate environment.

Mortgage Guaranty reported new insurance written of $37.5 billion for 2012 compared to $18.8 billion in 2011 and has experienced improving credit trends.

Our investment portfolio performance improved through the use of yield enhancements, including the reduction of our concentration in lower-yielding tax-exempt municipal securities and the purchase of other higher-yielding securities. These purchases include securities acquired through the Federal Reserve Bank of New York's (FRBNY) auction of Maiden Lane III LLC (ML III) assets. Realized capital gains increased because certain assets in unrealized gain positions were sold as part of a program to utilize capital loss tax carryforwards.

Our balance sheet is stronger as a result of the issuance of unsecured notes and the monetization of non-core assets.

Our financial flexibility was enhanced by $5.2 billion in cash distributions from subsidiaries.

We announced an agreement to sell ILFC, received final distributions on our interests in Maiden Lane II LLC (ML II) and ML III, and sold our remaining interest in AIA Group Limited (AIA), which will support our capital management initiatives, sharpen our business focus, and enable us to redeploy assets in a more productive manner.

We completed $13.0 billion in share purchases using a portion of the proceeds of our asset sales.

*

The Department of the Treasury continues to hold warrants to purchase approximately 2.7 million shares of AIG Common Stock.

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Our Performance   Selected Indicators

Years Ended December 31, *(in millions, except per share data)*	**2012**	2011	2010
Results of operations data:			
Total revenues	**$ 65,656**	$ 59,812	$ 72,829
Income from continuing operations	**7,752**	19,540	13,254
Net income attributable to AIG	**3,438**	20,622	10,058
Income per common share attributable to AIG (diluted)	**2.04**	11.01	14.98
Balance sheet data:			
Total assets	**$ 548,633**	$ 553,054	$ 675,573
Long-term debt	**48,500**	75,253	106,461
Total AIG shareholders' equity	**98,002**	101,538	78,856
Book value per common share	**66.38**	53.53	561.40

TOTAL REVENUES *($ millions)*

* Comparability between 2011 and 2010 data is affected by the deconsolidation of AIA in the fourth quarter of 2010.

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

Years Ended December 31, (in millions)	2012	2011	2010
AIG Property Casualty			
Pre-tax income (loss)	$ 1,837	$ 1,820	$ (93)
Net realized capital (gains) losses	2	(607)	38
Legal settlements*	(17)		
Bargain purchase gain			(332)
Other (income) expense net	(2)	5	(669)
Operating income (loss)	$ 1,820	$ 1,218	$ (1,056)
AIG Life and Retirement			
Pre-tax income	$ 3,780	$ 2,956	$ 2,701
Legal settlements*	(154)		
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities	(37)		
Net realized capital (gains) losses	(630)	(6)	1,251
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital (gains) losses	1,201	327	104
Operating income	$ 4,160	$ 3,277	$ 4,056
Other Operations			
Pre-tax income (loss)	$ 3,899	$ (4,703)	$ 17,611
Net realized capital gains	(501)	(12)	(908)
Net (gains) losses on sale of divested businesses	2	74	(18,897)
Amortization of prepaid commitment fee asset			3,471
Legal reserves	754	20	3
Legal settlements*	(39)		
Deferred gain on FRBNY credit facility		(296)	
Loss on extinguishment of debt	9	3,143	104
Divested businesses			(1,875)
Operating income (loss)	$ 4,124	$ (1,774)	$ (491)
Total			
Operating income of reportable segments and other operations	$ 10,104	$ 2,721	$ 2,509
Consolidations, eliminations and other adjustments	(20)	(190)	(301)
Income tax benefits (expenses)	(3,187)	243	(1,585)
Non-controlling interest	(262)	(688)	(2,172)
After-tax operating income (loss)	$ 6,635	$ 2,086	$ (1,549)

* Reflects litigation settlement income recorded in 2012 from settlements with three financial institutions that participated in the creation, offering and sale of RMBS as to which AIG and its subsidiaries suffered losses either for their own accounts or in connection with their participation in AIG's securities lending program.

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PRE-TAX INCOME (LOSS) *($ millions)*

OPERATING INCOME (LOSS) *($ millions)*

Prior Period Revisions

Prior period amounts have been revised to reflect the following:

Accounting for Deferred Acquisition Costs

As discussed in Note 2 to the Consolidated Financial Statements, AIG retrospectively adopted an accounting standard on January 1, 2012 that amended the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts.

AIG Property Casualty Operating Segment Changes

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

In the fourth quarter of 2012, to increase the focus on the drivers of the losses and proactively mitigate reserve development and legal costs, the management of certain environmental liability businesses written prior to 2004 was moved from Commercial Insurance to a separate claims organization. To align financial reporting with the internal management changes, this environmental (1987-2004) business is reported in the Other category. These revisions did not affect our total reportable segment results previously reported.

Sale of ILFC and Discontinued Operations Presentation

On December 9, 2012, AIG entered into an agreement to sell 80.1 percent of ILFC for approximately $4.2 billion in cash, with an option for the purchaser to buy an additional 9.9 percent stake (the ILFC Transaction). The sale is expected to close in 2013. At the closing of the transaction, in connection with the termination of intercompany arrangements between AIG and ILFC, AIG will return $1.1 billion to ILFC. As a result, ILFC operating results, which were previously presented in the Aircraft Leasing segment, have been classified as discontinued operations in all periods, and associated assets and liabilities have been classified as held-for-sale at December 31, 2012. See Note 4 to the Consolidated Financial Statements for further discussion.

Changes in Fair Value of Derivatives

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) is an intermediary for AIG subsidiaries have been reclassified from Other income to Net realized capital gains (losses).

Liquidity and Capital Resources Highlights

In March 2012, AIG paid down in full the $8.6 billion remaining preferred interests (the AIA SPV Preferred Interests) in the special purpose vehicle holding the proceeds of the AIA initial public offering (the AIA SPV) held by the Department of the Treasury.

In addition, in 2012, the Department of the Treasury, as selling shareholder, sold its remaining shares of AIG common stock by completing five registered public offerings in March, May, August, September and December (collectively, the 2012 Offerings). The Department of the Treasury sold approximately 1.5 billion shares of AIG Common Stock for aggregate proceeds of approximately $45.8 billion in the 2012 Offerings. We purchased approximately 421 million shares of AIG Common Stock at an average price of $30.86 per share for an aggregate purchase amount of approximately $13.0 billion in the first four of the 2012 Offerings. We did not purchase any shares in the December 2012 offering.

In 2012, AIG received $10.1 billion in distributions from the FRBNY's final disposition of ML II and ML III assets. Also in 2012, we sold our entire remaining interest in AIA ordinary shares for gross proceeds of approximately $14.5 billion.

Additional discussion and other liquidity and capital resources developments are included in Note 17 to the Consolidated Financial Statements and Liquidity and Capital Resources herein.

Investment Highlights

Net investment income increased 38 percent to $20.3 billion in 2012 compared to 2011, primarily through our previous investments in ML III and AIA. The overall credit rating of our fixed maturity portfolio was largely unchanged, and other-than- temporary impairments declined compared to prior year levels.

Our insurance operations achieved a $1.3 billion increase in net investment income in spite of the challenges presented by a continuing low rate environment. Net investment income improved due to the impact of yield enhancement initiatives and higher base yields. While corporate debt securities represented the core of new investment allocations, we continued to focus on risk weighted opportunistic investments in residential mortgage-backed (RMBS) and other structured securities to improve yields. These included purchases of assets sold in the ML II and ML III auctions by the FRBNY.

The unrealized appreciation of our investment portfolio grew from approximately $5.5 billion in 2011 to approximately $10.7 billion in 2012. This was driven by declining interest rates and narrowing spreads in both investment grade and high yield asset portfolios. We realized higher gains on the sales of securities compared to the prior year as we repositioned assets to meet strategic and tactical asset allocation objectives. Other-than-temporary Impairments were lower than the prior year, in part driven by favorable developments in the housing sector which drove strong performance in our structured products portfolios.

The overall credit ratings of our fixed maturity investments were largely unchanged from last year, reflecting a continued focus on long term risk adjusted portfolio performance.

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Risk Management Highlights

Our Risk Management Process

Risk Management

Risk management is an integral part of managing our businesses. It is a key element of our approach to corporate governance. We have an integrated process for managing risks throughout the organization. The framework of our Enterprise Risk Management (ERM) system provides senior management with a consolidated view of our major risk positions.

Our risk management process includes:

An enhanced risk governance structure that supports consistent and transparent decision making. We have recently revised our corporate policies to ensure that accountability for the implementation and oversight of each policy is better aligned with individual corporate executives while specialized risk governance committees already in operation receive regular reporting regarding policy compliance.

We remain committed to adhering to the highest standards of risk management and corporate governance.

Risk committees at our corporate level as well as in each business unit that manage the development and maintenance of a risk and control culture encompassing all significant risk categories. Our Board of Directors oversees the management of risk through the complementary functioning of the Finance and Risk Management Committee (the FRMC) and the Audit Committee, as well as through its regular interaction with other committees of the Board.

We continue to promote awareness and accountability for key risk and business decisions, and performance than in the past.

A capital and liquidity stress testing framework to assess our aggregate exposure to our most significant risks. We conduct enterprise-wide stress tests under a range of scenarios to better understand the resources needed to support our subsidiaries and consolidated company.

We manage risks better by applying performance metrics that enable us to assess risk more clearly and address evolving market conditions.

Strategic Outlook

Industry Trends

Our business is affected by industry and economic factors such as interest rates, credit and equity market conditions, regulation, tax policy, competition, and general economic, market and political conditions. In 2012, and continuing into 2013, we operated under difficult market conditions, characterized by factors such as low interest rates, instability in the global markets due to the European debt crisis, and slow growth in the U.S. economy.

The prevailing interest rate climate has a particularly significant effect on our industry. Investment returns have declined as the U.S. fixed income market remains in a low interest rate environment. In addition, current market conditions may not necessarily permit insurance companies to increase pricing across all our product lines.

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AIG Priorities for 2013

AIG is focused on the following priorities for 2013:

- Strengthen and improve the operating performance of our core businesses;
- Consummate the sale of up to 90 percent of our interest in ILFC;
- Enhance the yield on our investments while maintaining focus on credit quality;
- Manage AIG's capital and interest expense more efficiently by redeploying excess capital in areas that promote profitable growth;
- Work with the Board of Governors of the Federal Reserve System (the FRB) in its capacity as AIG's principal regulator; and
- Reduce recurring operating expenses by leveraging AIG's scale and driving increased standardization through investments in infrastructure.

Strategic Outlook for Our Operating Businesses

The strategic outlook for each of our businesses and management initiatives to improve growth and performance in 2013 and over the longer term are described below.

AIG PROPERTY CASUALTY STRATEGIC OUTLOOK

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

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

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AIG Property Casualty is focused on the following strategic initiatives:

usiness Mix Shift

/e expect that shifting our mix of business to higher value lines and geographies of opportunity will generate business with more
avorable underwriting results. However, as a result of the business mix shift to consumer products, higher value commercial products,
nd the investment in growth economy nations, policy acquisition expenses, including direct marketing costs, are expected to continue
o increase.

Inderwriting Excellence

/e anticipate that refining technical pricing account management tools and marketing analytics will further enhance our risk selection
rocess. We believe that accident year loss ratios will continue to improve due to these actions.

laims Best Practices

/e expect to reduce loss costs by realizing greater efficiencies in servicing customer claims, introducing fraud detection tools and
eveloping knowledge of the economic drivers of losses, which will proactively mitigate reserve development and legal costs, and
stablish effective pricing strategies.

)perating Expense Discipline

/e continue to make strategic investments in systems, processes and talent worldwide, which will result in elevated operating expense
n the short-term, but is expected to create additional value and greater efficiency beginning in 2014.

AIG Property Casualty Opportunities

Continue shifting toward higher value business to increase profitability.

Expand in attractive growth economies, specifically in Asi Pacific, the Middle East and Latin America.

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

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

Apply operating expense discipline and drive efficiencies by leveraging our global footprint.

Optimize the investment portfolio by aligning it with our risk appetite and tax objectives.

Capital Efficiency

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

We continue to streamline our legal entity structure, to enhance transparency with regulators and optimize capital and tax efficiency. For the year ended December 31, 2012, we completed 41 legal entity and branch restructuring transactions. We completed the integration of our European operations into a single pan-European insurance company, AIG Europe Limited, and continued the restructuring activities in the Asia Pacific region, including focusing on the strategy to consolidate the Japan operations under one holding company. During 2012, our restructuring and capital management initiatives enabled certain subsidiaries in Europe and the Asia Pacific region to return $575 million of capital to be used for general corporate purposes. We continue to implement restructuring plans in each region and the overall end state structure is expected to be mostly completed by the end of 2014.

Our Investment Strategy for AIG Property Casualty

Consistent with AIG's worldwide insurance investment policy, we place primary emphasis on investments in fixed maturity securities issued by corporations, municipalities and other governmental agencies, and to a lesser extent, common stocks, private equity, hedge funds and other alternative investments. We also attempt to enhance returns through investments in a diversified portfolio of private equity funds, hedge funds, and partnerships. Although these

investments are subject to periodic volatility, they have historically achieved yields in excess of the base portfolio yields. Our expectation is that these alternative investments will continue to outperform the base portfolio yields over the long-term.

Opportunistic investments in structured securities and other yield-enhancement opportunities continue to be made with the objective of increasing net investment income. Overall base yields increased in 2012 due to the portfolio mix shift away from tax-exempt municipal bonds toward taxable instruments; overall investment purchases were made at expected yields higher than the weighted average yields of the existing portfolio.

In 2013, we expect to continue to refine our investment strategy, which includes asset diversification and yield-enhancement opportunities that meet our liquidity, duration and credit quality objectives as well as current risk-return and tax objectives.

See Segment Results AIG Property Casualty Operations AIG Property Casualty Results - AIG Property Casualty Investing and Other Results and Note 7 to the Consolidated Financial Statements for additional information.

AIG LIFE AND RETIREMENT STRATEGIC OUTLOOK

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

During 2012, AIG Life and Retirement implemented a number of management actions to proactively address the impact of low interest rates. These actions include a continued disciplined approach to new business pricing of interest sensitive products (e.g. fixed annuities), active management of renewal crediting rates, increased pricing in certain life insurance products and re-filing of products to continue lowering minimum rate guarantees.

AIG Life and Retirement Opportunities

Grow assets under management

Increase life insurance in force

Enhance return on equity

AIG Life and Retirement is focused on the following strategic initiatives:

Growth of Assets Under Management

AIG Life and Retirement plans to fully leverage its unified all-channel distribution organization to increase sales of profitable products across all channels. In addition, management will pursue select institutional market opportunities where AIG Life and Retirement's scale and capacity provides a competitive market advantage. AIG Life and Retirement is well positioned to capitalize on the growing demand for income solutions while certain competitors are scaling back in this market. AIG Life and Retirement will continue to manage the risks associated with variable annuity living benefits through innovative product designs and hedging strategies. Given the size and diversity of AIG Life and Retirement's overall product portfolio, variable annuity reserves are a relatively small portion of its total reserves compared to others in this market. As a result of a broad distribution network and a more favorable competitive environment, AIG Life and Retirement expects variable annuity sales to remain strong for 2013.

Increase Life Insurance In force

AIG Life and Retirement's strategic focus related to life insurance and other mortality-based products includes disciplined underwriting, active expense management and product innovation. AIG Life and Retirement's distribution

strategy is to grow new sales by strengthening the core retail independent and career agent distributor channels and expanding its market presence through the development of innovative life insurance offerings based on consumer focused research to drive superior, differentiated product solutions. In addition, AIG Life and Retirement is enhancing its service and technology platform through the consolidation of its life operations and administrative systems, which is expected to result in a more efficient, cost-competitive and agile operating model.

Enhance Return on Equity

AIG Life and Retirement expects to leverage its streamlined legal entity structure to enhance financial strength and durability capital efficiency and ease of doing business. AIG Life and Retirement completed the merger of six life insurance operating legal entities into American General Life Insurance Company effective December 31, 2012. This merger will allow for more effective capital and dividend planning while creating operating efficiencies and making it easier for producers and customers to do business with AIG Life and Retirement. AIG Life and Retirement also plans to improve operational efficiencies and service through investments in technology, more productive use of existing resources and further use of lower-cost operations centers.

Our Investment Strategy for AIG Life and Retirement

AIG Life and Retirement places primary emphasis on investments in fixed maturity securities issued by corporations, municipalities and other governmental agencies, structured securities collateralized by, among others, residential and commercial real estate, and to a lesser extent, commercial mortgage loans, private equity, hedge funds, other alternative investments, and common and preferred stock.

Our fundamental investment strategy is to maintain primarily a diversified, high quality portfolio of fixed maturity securities and, as nearly as is practicable, to match the duration characteristics of our liabilities with assets of comparable duration. In addition, AIG Life and Retirement enhances its returns through investments in a diversified portfolio of private equity funds, hedge funds and affordable housing partnerships. Although returns on these investments are more volatile than our base fixed maturity securities portfolio, they have historically achieved higher total returns and yields than the base portfolio yields. AIG Life and Retirement's expectation is that these alternative investments will continue to outperform the base portfolio yields over the long-term.

Opportunistic investments in structured securities and other yield enhancement opportunities continue to be made with the objective of increasing net investment income. Overall base yields increased in 2012 due to the reinvestment of significant amounts of cash and short term investments during 2011. However, base yields have been declining in the latter half of 2012 as investment purchases were made at yields lower than the weighted average yield of the existing portfolio. During prolonged periods of low or declining interest rates, AIG Life and Retirement has to invest net flows and reinvest interest and principal payments from its investment portfolio in lower yielding securities.

See Segment Results AIG Life and Retirement Operations and Note 7 to the Consolidated Financial Statements for additional information.

Other Operations

Mortgage Guaranty

The following are expected to continue to affect results for 2013:

Mortgage Guaranty Opportunities

Market developments UGC is a market leader in the mortgage insurance industry with a differentiated risk-based pricing model that is designed to produce high quality new business. The withdrawal of certain competitors from the market during 2011 combined with UGC's investment grade rating and risk-based pricing has positioned UGC to take

advantage of market opportunities. UGC plans to continue to execute this strategy during 2013 and to further enhance its market position. UGC will continue to review its new business pricing relative to changes in the market to ensure that the price of coverage is commensurate with the level of risk being underwritten.

Increase market share through competitor differentiation.

Improve the risk profile of new insurance written.

Build our market leadership position.

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Delinquent inventory review During 2011 and 2012, UGC requested that lenders file claims, in accordance with the terms of the respective master policies, on approximately 21,000 accounts that had been delinquent approximately 24 months or more and were not expected to cure. Many of these delinquencies were the result of the foreclosure moratorium discussed below. Through December 31, 2012, UGC received responses to approximately 96 percent of these requests. While accelerating the payment of claims, these requests also impacted the cure rate of the delinquent inventory which in turn impacted UGC's estimate of reserve for loss and loss adjustment expenses. During 2013, reserve development may continue to have an impact on the business. UGC expects that newly reported delinquent loans will continue to decline during 2013 and that the delinquent inventory will decline further albeit at a slower rate than in 2012. However, the extent of the decline in delinquencies and the number of newly reported delinquencies is dependent on the prevailing macroeconomic conditions and the extent that the domestic economy does or does not improve. UGC will closely monitor these trends and the impact on its incurred loss and loss expenses in 2013.

Foreclosure delays Since 2010, a variety of servicing practices have come to light that have delayed the foreclosure process in many states. Some of these practices, such as the "robo-signing" of affidavits in judicial foreclosures, have resulted in government investigations into lenders' foreclosure practices. These developments have slowed the reporting of foreclosures, which has in turn slowed the filing of mortgage insurance claims and increased the uncertainty surrounding the determination of the liability for losses and loss adjustment expenses. UGC's assumptions regarding future foreclosures on current delinquencies take into consideration this trend, although significant uncertainty remains surrounding the determination of the liability for unpaid claims and claims adjustment expenses. UGC expects that this trend may continue for 2013 and may negatively affect UGC's future financial results. Final resolution of these issues is uncertain and UGC cannot reasonably estimate the ultimate financial impact that any resolution, individually or collectively, may have on its future results of operations or financial condition.

Global Capital Markets (GCM)

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

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

Direct Investment Book (DIB)

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

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

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

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Results of Operations

The following section provides a comparative discussion of our Results of Operations on a reported basis for the three-year period ended December 31, 2012. Factors that relate primarily to a specific business segment are discussed in more detail within that business segment. For a discussion of the Critical Accounting Estimates that affect the Results of Operations, see the Critical Accounting Estimates section of Item 7. MD&A, in this Annual Report on Form 10-K.

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

Years Ended December 31,				Percentage Change	
(in millions)	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Revenues:					
Premiums	$ **38,011**	$ 38,990	$ 45,319	(3)%	(14)%
Policy fees	**2,791**	2,705	2,710	3	
Net investment income	**20,343**	14,755	20,934	38	(30)
Net realized capital gains (losses)	**929**	701	(716)	33	NM
Other income	**3,582**	2,661	4,582	35	(42)
Total revenues	**65,656**	59,812	72,829	10	(18)
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**31,977**	33,450	41,392	(4)	(19)
Interest credited to policyholder account balances	**4,362**	4,467	4,487	(2)	
Amortization of deferred acquisition costs	**5,709**	5,486	5,821	4	(6)
Other acquisition and insurance expenses	**9,235**	8,458	10,163	9	(17)
Interest expense	**2,319**	2,444	6,742	(5)	(64)
Net loss on extinguishment of debt	**9**	2,847	104	(100)	NM
Net (gain) loss on sale of properties and divested businesses	**2**	74	(19,566)	(97)	NM
Other expenses	**2,721**	2,470	3,439	10	(28)
Total benefits, claims and expenses	**56,334**	59,696	52,582	(6)	14
Income from continuing operations before income tax expense (benefit)	**9,322**	116	20,247	NM	(99)
Income tax expense (benefit)	**1,570**	(19,424)	6,993	NM	NM
Income from continuing operations	**7,752**	19,540	13,254	(60)	47
Income (loss) from discontinued operations, net of income tax expense (benefit)	**(4,052)**	1,790	(969)	NM	NM
Net income	**3,700**	21,330	12,285	(83)	74
Less: Net income attributable to noncontrolling interests	**262**	708	2,227	(63)	(68)
Net income attributable to AIG	$ **3,438**	$ 20,622	$ 10,058	(83)%	105%

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AIG 2012 and 2011 Comparison

Income from continuing operations before income taxes for 2012 and 2011 reflected the following:

- pre-tax income from insurance operations of $5.6 billion in 2012, which included catastrophe losses of $2.7 billion, largely arising from Storm Sandy, and severe losses of $326 million, compared to pre-tax income from insurance operations of $4.8 billion in 2011, which included catastrophe losses of $3.3 billion, largely arising from Hurricane Irene, U.S. tornadoes and the Great Tohoku Earthquake & Tsunami in Japan (the Tohoku Catastrophe) and severe losses of $296 million;
- increases in fair value of AIG's interest in AIA ordinary shares of $2.1 billion and $1.3 billion in 2012 and 2011, respectively. The increase in fair value in 2012 included a gain on sale of AIA ordinary shares of approximately $0.8 billion;
- an increase in fair value of AIG's interest in ML III of $2.9 billion in 2012, compared to a decrease in fair value of $646 million in the same period of 2011;
- an increase in estimated litigation liability of approximately $783 million for the year ended December 31, 2012 based on developments in several actions;
- litigation settlement income of $210 million in 2012 from settlements with three financial institutions who participated in the creation, offering and sale of RMBS from which AIG and its subsidiaries suffered losses either for their own accounts or in connection with their participation in AIG's securities lending program; and
- a $3.3 billion net loss, primarily consisting of the accelerated amortization of the remaining prepaid commitment fee asset resulting from the termination of the credit facility provided by the FRBNY (the FRBNY Credit Facility) in 2011. This was partially offset by a $484 million gain on extinguishment of debt in the fourth quarter of 2011 due to the exchange of subordinated debt.

A Year of Progress

For the third consecutive year we posted a full year profit.

Our total AIG Property Casualty accident year loss ratio, as adjusted, improved each year during the past three years.

We enhanced spread income and actively managed through the low interest rate environment.

Our investment portfolio performance improved due to the completion of the cash deployment in 2011.

For the year ended December 31, 2012, the effective tax rate on pre-tax income from continuing operations was 16.8 percent. This rate differs from the statutory rate primarily due to tax benefits of $1.9 billion related to a decrease in the life-insurance-business capital loss carryforward valuation allowance and $302 million associated with tax exempt interest income. These items were partially offset by charges in uncertain tax positions of $586 million and $172 million associated with the effect of foreign operations.

For the year ended December 31, 2011, the effective tax rate on pre-tax income from continuing operations was not meaningful, due to the significant effect of releasing approximately $18.4 billion of the deferred tax asset valuation allowance. Other factors that contributed to the difference from the statutory rate included tax benefits of $454 million associated with tax exempt interest income, $386 million associated with the effect of foreign operations, and $224 million related to our investment in subsidiaries and partnerships.

In 2012, AIG recorded a loss from discontinued operations, net of income taxes, of $4.1 billion, which included a pre-tax loss of $6.7 billion on the announced sale of ILFC.

After-tax operating income for 2012 was $6.6 billion compared to $2.1 billion for 2011.

AIG 2011 and 2010 Comparison

Income from continuing operations before income taxes for 2011 and 2010 reflected the following:

- pre-tax income from insurance operations of $4.8 billion in 2011 which included the catastrophe losses described above, compared to $2.6 billion in 2010, which included catastrophe losses of $1.1 billion;

- a $3.3 billion net loss on extinguishment of debt from the termination of the FRBNY Credit Facility on January 14, 2011. This was partially offset by a $484 million gain on extinguishment of debt in the fourth quarter of 2011 due to the exchange of junior subordinated debt;

- $604 million in unfavorable fair value adjustments on AIG's economic interest in ML II and equity interest in ML III (together, the Maiden Lane Interests);

- our 2010 results included gains of $19.6 billion on sales of divested businesses. These included a $18.1 billion gain from the initial public offering and listing of AIA ordinary shares on the Hong Kong Stock Exchange on October 29, 2010, and a gain of $1.3 billion recognized in 2010 related to the sale of our headquarters building in Tokyo in 2009, which gain had been deferred until the expiration of certain lease provisions; and

- we had income in 2010 from divested businesses prior to their sale totaling $2.4 billion, primarily representing AIA.

Partially offsetting these declines were:

- a decrease in interest expense of $4.1 billion primarily resulting from the January 2011 repayment of the FRBNY Credit Facility;

- an increase in the fair value of AIA ordinary shares; and

- a reduction in realized capital losses in 2011 compared to 2010.

As discussed above, AIG released $18.4 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group in 2011.

For the year ended December 31, 2010, the effective tax rate on pre-tax income from continuing operations was 34.5 percent. This rate differs from the statutory rate primarily due to tax benefits of $1.3 billion associated with our investment in subsidiaries and partnerships, principally the AIA SPV which is treated as a partnership for U.S. tax purposes, and $587 million associated with tax exempt interest, partially offset by an increase in the deferred tax asset valuation allowance attributable to continuing operations of $1.4 billion.

In 2011, AIG recorded income from discontinued operations net of taxes of $1.8 billion, which included a pre-tax gain of $3.5 billion recorded in the first quarter of 2011 on the sale of AIG Star Life Insurance Co., Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison). This compared to a net loss of $969 million in 2010, which included goodwill impairment charges of $4.6 billion associated with the sale of American Life Insurance Company (ALICO), AIG Star and AIG Edison.

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The following table presents a reconciliation of income attributable to AIG from continuing operations to after-tax operating income (loss):

Years Ended December 31, *(in millions)*	2012	2011	2010
Net income	**$ 3,700**	$ 21,330	$ 12,285
Income (loss) from discontinued operations, net of income tax expense (benefit)	**(4,052)**	1,790	(969)
Income from continuing operations	**7,752**	19,540	13,254
Net (gains) losses on sale of divested businesses	**1**	48	(15,326)
Income from divested businesses		(16)	(1,552)
Legacy FIN 48 and other tax adjustments	**543**		
Legal reserves (settlements) related to legacy crisis matters	**353**	13	2
Deferred income tax valuation allowance (releases) charges	**(1,911)**	(18,307)	1,392
Amortization of FRBNY prepaid commitment fee asset		2,358	2,255
Changes in fair value of AIG Life and Retirement fixed income securities designated to hedge living benefit liabilities	**(24)**		
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital (gains) losses	**781**	202	74
(Gain) loss on extinguishment of debt	**6**	(520)	104
Net realized capital (gains) losses	**(586)**	(460)	1,104
Non-qualifying derivative hedging gains, excluding net realized capital (gains) losses	**(18)**	(84)	(352)
Bargain purchase gain			(332)
After-tax operating income	**6,897**	2,774	623
Net income from continuing operations attributable to noncontrolling interests	**262**	688	2,172
After-tax operating income (loss)	**$ 6,635**	$ 2,086	$ (1,549)

After-tax operating income increased in 2012 compared to 2011 primarily due to increases in income from insurance operations and in the fair value gains on AIG's interest in AIA ordinary shares and AIG's interest in ML III, discussed above. This was partially offset by an increase in income tax expenses in 2012 compared to an income tax benefit in 2011.

For the year ended December 31, 2012, the effective tax rate on pre-tax operating income was 31.6 percent. The effective tax rate for the year ended December 31, 2012, attributable to pre-tax operating income differs from the statutory rate primarily due to tax exempt interest income and other permanent tax items.

For the year ended December 31, 2011, the effective tax rate on pre-tax operating income was (9.6) percent. The significant factors that contributed to the difference from the statutory rate included tax benefits resulting from tax exempt interest income, tax benefits associated with non-controlling interests, as well as discrete tax benefits recorded during the year.

We reported after-tax operating income in 2011 compared to after-tax operating losses in 2010 primarily due to a net charge to strengthen AIG Property Casualty's loss reserves in 2010, partially offset by higher catastrophe losses in 2011.

For the year ended December 31, 2010, the effective tax rate on pre-tax operating income was 70.2 percent. The effective tax rate attributable to pre-tax operating income for the year ended December 31, 2010 differs from the statutory rate primarily due to tax benefits associated with divested businesses, which are excluded from after-tax operating income.

Segment Results

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

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

Years Ended December 31, (in millions)	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Total revenues:					
AIG Property Casualty	$ 39,781	$ 40,722	$ 37,207	(2)%	9%
AIG Life and Retirement	16,767	15,315	14,747	9	4
Total reportable segments	56,548	56,037	51,954	1	8
Other Operations	9,974	4,079	21,405	145	(81)
Consolidation and eliminations	(866)	(304)	(530)	(185)	43
Total	65,656	59,812	72,829	10	(18)
Pre-tax income (loss):					
AIG Property Casualty	1,837	1,820	(93)	1	NM
AIG Life and Retirement	3,780	2,956	2,701	28	9
Total reportable segments	5,617	4,776	2,608	18	83
Other Operations	3,899	(4,703)	17,611	NM	NM
Consolidation and eliminations	(194)	43	28	NM	54
Total	9,322	116	20,247	NM	(99)

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

2012 and 2011 Pre-tax Income Comparison

AIG Property Casualty Pre-tax income increased slightly in 2012 compared to 2011. The increase in pre-tax income was the result of lower underwriting losses due to the impact of lower catastrophe losses, underwriting improvements related to rate increases and enhanced risk selection, higher net investment income due to asset diversification by reducing the concentration in tax-exempt municipal instruments and increasing investments in private placement debt and structured securities. These increases were partially offset by higher acquisition costs as a result of the change in business mix from Commercial Insurance to Consumer Insurance and higher general operating expenses and lower net realized capital gains.

AIG Life and Retirement Pre-tax income increased in 2012 compared to 2011, principally due to efforts to actively manage net investment spreads. Results benefited from higher net investment income, lower interest credited, lower reserves for death claims and the impact of more favorable separate account performance on DAC amortization and policyholder benefit reserves. These items were partially offset by significant proceeds from a legal settlement in 2011, higher mortality costs and an increase in GIC reserves.

Other Operations Other Operations recorded pre-tax income in 2012 compared to a pre-tax loss in 2011 due to fair value and realized gains in our interest in AIA ordinary shares, and in our interest in ML III, partially offset by an increase in estimated litigation liability, and a loss on extinguishment of debt of $3.3 billion in 2011 in connection with the termination of the FRBNY Credit Facility.

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2011 and 2010 Pre-tax Income Comparison

AIG Property Casualty AIG Property Casualty generated pre-tax income in 2011 compared to a pre-tax loss in 2010. The increase in pre-tax income was the result of lower underwriting losses primarily due to an increase in premium revenues, resulting from the consolidation of Fuji commencing in the third quarter of 2010 and lower prior year adverse development in 2011. These increases in pre-tax income were partially offset by higher catastrophe losses, and higher acquisition and general operating expenses due to a change in business mix.

Pre-tax income also increased as a result of net realized gains in 2011 compared to realized capital losses in 2010 due to an increase in gains on sales of securities, economic hedges and foreign exchange. In 2010, AIG Property Casualty recognized a bargain purchase gain from the acquisition of Fuji and a gain on divested properties.

AIG Life and Retirement Pre-tax income increased in 2011 compared to 2010 primarily due to net realized capital gains in 2011 compared to net realized capital losses in 2010 as a result of a decline in other-than-temporary impairments, partially offset by lower net investment income due to lower base yields and an increase in death claim reserves in conjunction with the use of the Social Security Death Master File (SSDMF) to identify potential claims not yet filed with its life insurance companies.

Other Operations Other Operations recorded a pre-tax loss in 2011 compared to pre-tax income in 2010 due to a net gain on sale of divested businesses in 2010, primarily related to AIA.

AIG Property Casualty

AIG Property Casualty 2012 Highlights

Net premiums written decreased for the year ended December 31, 2012 reflecting the continued execution of our strategic initiatives to improve business mix, pricing and loss performance. Declines within Commercial Insurance due to certain lines of business that did not meet internal operating objectives were partially offset by an increase in Consumer Insurance net premiums written.

The loss ratio improved by 4.4 points for the year ended December 31, 2012, due to a decrease in catastrophe losses, the benefit from positive pricing trends, the execution of our strategic initiatives and an increase in reserve discount. Catastrophe losses, adjusted for reinstatement premiums, were $2.7 billion in 2012, primarily as a result of Storm Sandy in the fourth quarter of 2012, compared to $3.3 billion in 2011. For the years ended December 31, 2012 and 2011, catastrophe losses contributed 7.5 and 9.2 points to the loss ratio, respectively. Net prior year adverse development, including related premium adjustments was $445 million and $39 million for the years ended December 31, 2012 and 2011, respectively.

The acquisition ratio increased by 1.8 points for the year ended December 31, 2012, primarily due to the change in business mix to higher value lines and increased market competition, the restructuring of the loss-sensitive business with low commission rates, and changes in our reinsurance strategy, all resulting in higher commissions.

The general operating expense ratio increased by 2.4 points for the year ended December 31, 2012, as we continue to build, strengthen and streamline our financial and operating systems infrastructure and control environment throughout the organization, particularly in financial reporting, policy and claims administration, and human resources as a result of our continued investment in our employees. The total costs of these initiatives were approximately $455 million for the year ended December 31, 2012, an increase of approximately $233 million from the prior year. In addition, bad debt expense increased by approximately $143 million from the prior year.

Net investment income increased by 11.0 percent for the year ended December 31, 2012, due to asset diversification by reducing the concentration in tax-exempt municipal instruments and increasing investments in private placement debt and structured securities.

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We paid cash and non-cash dividends of $2.5 billion to AIG in the year ended December 31, 2012. As a result of Storm Sandy catastrophe losses, AIG contributed $1.0 billion of capital in cash to its U.S. property casualty insurance subsidiaries in December 2012.

AIG Property Casualty Operations

We present our financial information in two operating segments Commercial Insurance and Consumer Insurance as well as an Other category.

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

We are developing new value-based metrics that provide management shorter-term measures to evaluate our performance across multiple lines and various countries. As an example, we have implemented a risk-adjusted profitability model as a business performance measure. Along with underwriting results, this risk-adjusted profitability model incorporates elements of capital allocations, costs of capital and net investment income. We believe that such performance measures will allow us to better assess the true economic returns of our business.

For the years ended December 31, 2012 and 2011, results reflect the effects of the full year of Fuji operations, while the corresponding 2010 period reflects the effects of Fuji for only two quarters, because we began consolidating Fuji's operating results on July 1, 2010, following its acquisition. Fuji operations primarily relate to Consumer Insurance.

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AIG Property Casualty Results

The following table presents AIG Property Casualty results:

Years Ended December 31, *(in millions)*	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Commercial Insurance					
Underwriting results:					
Net premiums written	$ 20,300	$ 21,055	$ 20,173	(4)%	4%
Decrease in unearned premiums	500	748	889	(33)	(16)
Net premiums earned	20,800	21,803	21,062	(5)	4
Claims and claims adjustment expenses incurred	16,696	18,332	18,814	(9)	(3)
Underwriting expenses	6,009	5,345	5,252	12	2
Underwriting loss	(1,905)	(1,874)	(3,004)	(2)	38
Net investment income	2,809	3,213	3,309	(13)	(3)
Operating income	$ 904	$ 1,339	$ 305	(32)%	339%
Consumer Insurance					
Underwriting results:					
Net premiums written	$ 14,150	$ 13,762	$ 11,346	3%	21%
Increase in unearned premiums	(198)	(7)	(67)	NM	90
Net premiums earned	13,952	13,755	11,279	1	22
Claims and claims adjustment expenses incurred	8,498	8,900	6,745	(5)	32
Underwriting expenses	5,613	5,253	4,650	7	13
Underwriting loss	(159)	(398)	(116)	60	(243)
Net investment income	451	354	301	27	18
Operating income (loss)	$ 292	$ (44)	$ 185	NM%	NM%
Other					
Underwriting results:					
Net premiums written	$ (14)	$ 23	$ 93	NM%	(75)%
Decrease in unearned premiums	135	108	87	25	24
Net premiums earned	121	131	180	(8)	(27)
Claims and claims adjustment expenses incurred	591	717	2,308	(18)	(69)
Underwriting expenses	466	272	200	71	36
Underwriting loss	(936)	(858)	(2,328)	(9)	63
Net investment income	1,560	781	782	100	
Operating income (loss)	624	(77)	(1,546)	NM	95
Net realized capital gains (losses)	(2)	607	(38)	NM	NM
Legal settlement	17			NM	NM

Bargain purchase gain			332	NM	NM
Other income (expense) net	**2**	(5)	669	NM	NM
Pre-tax income (loss)	**$ 641**	$ 525	$ (583)	22%	NM%
Total AIG Property Casualty					
Underwriting results:					
Net premiums written	**$ 34,436**	$ 34,840	$ 31,612	(1)%	10%
Decrease in unearned premiums	**437**	849	909	(49)	(7)
Net premiums earned	**34,873**	35,689	32,521	(2)	10
Claims and claims adjustment expenses incurred	**25,785**	27,949	27,867	(8)	
Underwriting expenses	**12,088**	10,870	10,102	11	8
Underwriting loss	**(3,000)**	(3,130)	(5,448)	4	43
Net investment income	**4,820**	4,348	4,392	11	(1)
Operating income (loss)	**1,820**	1,218	(1,056)	49	NM
Net realized capital gains (losses)	**(2)**	607	(38)	NM	NM
Legal settlement	**17**			NM	NM
Bargain purchase gain			332	NM	NM
Other income (expense) net*	**2**	(5)	669	NM	NM
Pre-tax income (loss)	**$ 1,837**	$ 1,820	$ (93)	1%	NM%

* Includes gain on divested properties of $669 million in 2010.

2012 and 2011 Comparison

AIG Property Casualty Results

Operating income increased in 2012, primarily due to a decrease in catastrophe losses to $2.7 billion from $3.3 billion in the prior year. In addition, net investment income increased due to asset diversification, from concentration in tax-exempt municipal instruments into investments in private placement debt and structured securities. This was slightly offset by an increase in acquisition costs due to the change in business mix to higher value lines of business and the change in business mix from Commercial Insurance to Consumer Insurance. General operating expenses increased due to the continued investment in strategic initiatives and human resources, as a result of AIG's continued investment in its employees. For the year ended December 31, 2012, investments in strategic initiatives totaled approximately $455 million, representing an increase of approximately $233 million over the prior year. In addition, bad debt expense increased by approximately $143 million from the prior year. Net prior year adverse development, including premium adjustments, was $445 million for 2012 compared to $39 million for 2011.

Commercial Insurance Results

Operating income decreased in 2012, primarily due to a decrease in allocated net investment income reflecting a decrease in the risk-free rate. Underwriting losses increased slightly compared to the prior year, reflecting lower catastrophe and improved current accident year losses, the effect of rate increases and enhanced risk selection, and an increase in reserve discount of $100 million, offset by higher acquisition and general operating expenses, and higher adverse prior year development.

Acquisition costs increased primarily as a result of higher commission expense due to the restructuring of the U.S. Casualty, primarily loss-sensitive business, as we move towards higher value lines. General operating expenses increased due to an increase in bad debt expense of approximately $143 million and investments in strategic initiatives.

Consumer Insurance Results

Consumer Insurance generated operating income in 2012 compared to an operating loss in 2011, reflecting a reduction in underwriting loss as well as an increase in allocated net investment income resulting primarily from the strategic group benefits partnership with AIG Life and Retirement. Underwriting results improved due to the combination of lower catastrophe losses, favorable loss reserve development, the effect of rate increases, enhanced risk selection and portfolio management. These improvements were offset in part by higher acquisition and general operating expenses.

Acquisition costs increased primarily due to an increase in warranty profit sharing arrangements, increased investment in direct marketing, and a decrease of approximately $49 million in the benefit from the amortization of VOBA liabilities recognized at the time of the Fuji acquisition. General operating expenses increased in 2012 due to investments in infrastructure and strategic expansion in growth economy nations.

2011 and 2010 Comparison

AIG Property Casualty Results

We recognized operating income in 2011 compared to an operating loss in 2010 primarily due to an increase in premium revenues, partially offset by higher acquisition and general operating expenses. Prior year adverse loss development, net of premium adjustments, decreased from $4.8 billion in 2010 to $39 million in 2011. Catastrophe losses were $3.3 billion in 2011 compared to $1.1 billion in 2010.

Acquisition and general operating expenses increased in 2011, primarily due to the effect of including Fuji results for a full year. General operating expenses also increased due to investments in a number of strategic initiatives during 2011, including the implementation of improved regional governance and risk management capabilities, the implementation of global accounting and claims systems, preparation for Solvency II and certain other legal entity restructuring initiatives.

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Commercial Insurance Results

Operating income increased in 2011, reflecting the effect of rate increases and enhanced risk selection. These items were partially offset by higher catastrophe losses, higher acquisition expenses and a decrease in the allocated net investment income due to a decrease in the risk-free rate. In 2011, catastrophe losses, adjusted for reinstatement premiums, were $2.6 billion compared to $1.0 billion in 2010, as 2011 included the impact of the Tohoku Catastrophe in Japan and the earthquakes in New Zealand. In 2011, net prior year favorable development, including premium adjustments, was $455 million compared to net prior year adverse development of $2.6 billion in 2010.

Consumer Insurance Results

Consumer Insurance recognized an operating loss in 2011 compared to operating income in 2010 primarily due to an increase in catastrophe losses, which includes the Tohoku Catastrophe and Hurricane Irene. This was partially offset by an improvement in the accident year loss ratio, and an increase in allocated net investment income. Catastrophe losses for the year ended December 31, 2011 were $715 million compared to $66 million during the prior year. Net prior year adverse development was $85 million in 2011 as compared to net prior year favorable development of $63 million in 2010.

See AIG Property Casualty Underwriting Ratios below for further information on prior year development.

AIG Property Casualty Net Premiums Written

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

Years Ended December 31, (in millions)	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Commercial Insurance					
Casualty	$ 8,574	$ 9,820	$ 9,940	(13)%	(1)%
Property	4,191	3,811	3,180	10	20
Specialty	3,576	3,552	3,335	1	7
Financial lines	3,959	3,872	3,718	2	4
Total net premiums written	$ 20,300	$ 21,055	$ 20,173	(4)%	4%
Consumer Insurance					
Accident & Health	$ 6,969	$ 6,762	$ 5,774	3%	17%
Personal lines	7,181	7,000	5,572	3	26
Total net premiums written	$ 14,150	$ 13,762	$ 11,346	3%	21%
Other	(14)	23	93	NM	(75)
Total AIG Property Casualty net premiums written	$ 34,436	$ 34,840	$ 31,612	(1)%	10%

2012 and 2011 Comparison

Commercial Insurance Net Premiums Written

In 2012, Commercial Insurance focused on the execution of the previously announced strategic objectives. The overall decrease in Casualty was partially offset by increases in all the other lines of business.

Casualty net premiums written decreased, as planned, primarily due to the execution of our strategy to improve loss ratios. Our enhanced risk selection process, and adherence to pricing targets resulted in the non-renewal of approximately $800 million of net premiums written, primarily within the workers' compensation business in the Americas, and within the Primary Casualty business in EMEA. In addition, the restructuring of the loss-sensitive programs decreased Casualty net premiums written by approximately $260 million in 2012. The additional premiums associated with prior year development in the loss-sensitive business also decreased by approximately $120 million. We also entered into a quota share reinsurance treaty in the U.S. for the Excess Casualty business that decreased net premiums written by approximately $60 million. We implemented rate increases in retained business, especially in the U.S., that partially offset the premium decreases noted above.

Property net premiums written increased due to rate increases, primarily in the U.S., reduced catastrophe bond purchases in 2012, and the restructuring of the per-risk reinsurance program as part of our decision to retain more favorable risks while continuing to manage aggregate exposure. Catastrophe exposed business retained in the Americas and Asia Pacific region also benefitted from rate increases.

We have continued the strategy, adopted in 2010, to improve the allocation of our reinsurance between traditional reinsurance markets and capital markets. During 2011, as part of this strategy, we secured a three-year catastrophe bond with an industry index, first occurrence trigger, providing for $575 million in protection for U.S. hurricanes and earthquakes. The bond transaction reduced net premiums written by approximately $201 million in 2011. There were no catastrophe bond purchases in 2012.

Specialty net premiums written increased in 2012 due to the restructuring of the aerospace reinsurance program to retain more favorable risks while continuing to manage aggregate exposure. This increase was slightly offset by our strategic initiatives related to improved risk selection, particularly within products provided to small and medium sized enterprises in the Americas and EMEA regions. We continue to shift our business mix towards higher value lines, particularly in aerospace.

Financial lines net premiums written increased, reflecting strong business growth in all regions, despite targeted decreases where the business did not meet our risk selection and internal performance criteria. Financial lines net premiums written for year ended December 31, 2011 benefited from a multi-year Errors and Omissions policy in the Americas that produced net premiums written of $148 million.

Consumer Insurance Net Premiums Written

The Consumer Insurance business continued to grow its net premiums written and build momentum through its multiple distribution channels and continuing focus on direct marketing. Consumer Insurance is well-diversified across the major lines of business and has global strategies that are executed across its regions to enhance customer relationships and business performance. Consumer Insurance currently has direct marketing operations in over 50 countries, and we continued to emphasize the growth of this channel, which for the year ended December 31, 2012, accounted for approximately 15 percent of our overall net premiums written.

A&H net premiums written increased, due to the growth of group personal accident business in the Americas and Asia Pacific, strong growth of new business sales in Fuji Life, travel insurance business, direct marketing programs in Japan and other Asia Pacific nations and growth in individual personal accident in other Asia Pacific nations. This was partially offset by the continuing strategies to reposition U.S. direct marketing operations, as well as pricing and underwriting actions in Europe.

Personal lines net premiums written increased primarily due to the execution of our strategic initiative to grow higher value lines of business in non-automobile products and rate increases in Japan automobile products. Growth in non-automobile net premiums written outpaced growth in automobile net premiums written, increasing its proportion to total net premiums written, due to our focus on diversifying the global product mix.

2011 and 2010 Comparison

Commercial Insurance Net Premiums Written

In 2011, net premiums written increased due to the effects of overall improvements in ratable exposures (i.e., asset values, payrolls and sales), general pricing improvement and retrospective premium adjustments on loss-sensitive contracts. We implemented certain initiatives designed to provide for a more effective use of capital, further growth in the strategic higher value lines of business and improvement in foreign exchange rates.

Casualty net premiums written decreased primarily due to our strategic initiatives in workers' compensation and certain other lines of business, as well as a continued commitment to maintain price discipline in lines where market rates are unsatisfactory. However, given the capital intensive nature of these classes of casualty business, we expect that over time, these actions will improve our results. Net premiums written decreased by approximately $0.6 billion as we ceased writing excess workers' compensation business as a stand-alone product. This was slightly offset by an increase in additional premiums on loss-sensitive business in the amount of approximately $164 million compared to 2010.

Property net premiums written increased due to particularly strong pricing trends in the U.S. and Japan, coupled with changes in the reinsurance strategy resulting in increased retentions. The catastrophe bond transactions in 2011 and 2010 reduced net premiums written by approximately $201 million and $208 million, respectively.

Specialty net premiums written increased due to the strategic initiative to grow higher value lines, including aerospace, global marine, and credit insurance, all of which benefited from the impact of rate increases as well as new business growth.

Financial lines net premiums written increased primarily due to a multi-year Errors and Omissions policy in the Americas that produced net premiums written of $148 million in 2011.

Consumer Insurance Net Premiums Written

Consumer Insurance net premiums written increased in 2011 primarily due to the effect of including Fuji results for a full year, improvement in foreign currency exchange rates, primarily in the Japanese Yen, and further growth in the strategic higher value lines of business. Excluding the effect of the Fuji acquisition and foreign exchange, Consumer Insurance net premiums written declined by one percent in 2011, primarily due to the non-renewal of certain programs in the U.S. and Canada that did not meet internal performance targets in Personal lines business.

A&H net premiums written increased primarily due to the Fuji acquisition, direct marketing, group and individual accident, travel business, and the execution of new business strategies at Fuji Life. Excluding the Fuji acquisition, A&H net premiums written increased by approximately 7 percent, mainly attributable to favorable marketing programs and the benefits of rate increases implemented in 2010 in Japan and the effect of foreign exchange. Growth was also demonstrated in key geographic markets such as China, Continental Europe and Israel.

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Personal lines net premiums written increased primarily driven by the full year consolidation of Fuji results and growth in auto, personal property, and specialty personal lines products. Excluding the effects of the Fuji acquisition, Personal Lines net premiums decreased one percent, primarily as a result of a management decision to not renew certain programs in the U.S. and Canada that did not meet internal performance targets. Personal Lines continued to grow in key markets, including Japan and other Asia Pacific countries, Latin America, and in key lines, such as personal property and specialty personal lines products.

AIG Property Casualty Net Premiums Written by Region

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

Years Ended December 31,				Percentage Change in U.S. dollars		Percentage Change in Original Currency	
(in millions)	2012	2011	2010	2012 vs. 2011	2011 vs. 2010	2012 vs. 2011	2011 vs. 2010
Commercial Insurance:							
Americas	**$ 13,717**	$ 14,493	$ 14,302	(5)%	1%	(5)%	1%
Asia Pacific	**2,003**	1,868	1,326	7	41	7	31
EMEA	**4,580**	4,694	4,545	(2)	3	1	1
Total net premiums written	**$ 20,300**	$ 21,055	$ 20,173	(4)%	4%	(3)%	3%
Consumer Insurance:							
Americas	**$ 3,913**	$ 3,628	$ 3,640	8%	%	9%	%
Asia Pacific	**8,443**	8,194	5,826	3	41	2	30
EMEA	**1,794**	1,940	1,880	(8)	3	(2)	(1)
Total net premiums written	**$ 14,150**	$ 13,762	$ 11,346	3%	21%	3%	15%
Other:							
Americas	**$ (16)**	$ 23	$ 93	NM%	(75)%	NM%	NM%
Asia Pacific	**2**			NM	NM	NM	NM
Total net premiums written	**$ (14)**	$ 23	$ 93	NM%	(75)%	NM%	NM%
Total AIG Property Casualty:							
Americas	**$ 17,614**	$ 18,144	$ 18,035	(3)%	1%	(3)%	1%
Asia Pacific	**10,448**	10,062	7,152	4	41	3	30
EMEA	**6,374**	6,634	6,425	(4)	3		1
Total net premiums written	**$ 34,436**	$ 34,840	$ 31,612	(1)%	10%	(1)%	7%

2012 and 2011 Comparison

The Americas net premiums written decreased primarily due to the restructuring of the Commercial Insurance Casualty book of business primarily in workers' compensation and loss-sensitive business, slightly offset by rate increases. These decreases were partially offset by continued growth in Consumer Insurance, which was primarily attributable to increases to group accident, personal property, and private client group and warranty lines. Additional premium recognized on the loss-sensitive book of business was $54 million for the year ended December 31, 2012 compared to additional premium of $172 million in the prior year.

Asia Pacific net premiums written increased for the year ended December 31, 2012 primarily due to an increase in Consumer Insurance reflecting growth of personal property business, group personal accident insurance, and direct marketing business in Japan. The expansion in Asia Pacific countries outside Japan also continued in the year ended December 31, 2012, supported by growth in individual personal accident insurance, direct marketing and personal lines products. Commercial Insurance increased in the region primarily due to organic growth and rate increases in Property and moderate organic growth in Specialty and Financial lines.

EMEA net premiums written decreased primarily due to the impact of foreign exchange. The continued execution of underwriting discipline and the reduction in certain casualty lines that did not meet internal performance targets were offset by rate strengthening initiatives on new and renewal business for Commercial Insurance. Consumer Insurance experienced modest growth in travel, warranty, and specialty personal lines products while focused on re-building its direct marketing programs that it previously shared with American Life Insurance Company (ALICO).

2011 and 2010 Comparison

The Americas net premiums written increased slightly as a result of modest growth in Commercial Insurance offset by a small decrease in Consumer Insurance. The increase in Commercial Insurance was primarily due to the pricing improvements in Property and Specialty, which was slightly offset by a decrease in Casualty due to the strategic initiative in workers' compensation. The decrease in Consumer insurance was primarily due to underwriting actions taken in private client group to meet performance targets and a decrease in warranty lines new business in the U.S. and Canada, partially offset by continued growth in travel business and A&H direct marketing in Latin America.

Asia Pacific net premiums written increased as a result of the effect of the full year consolidation of Fuji. Excluding the effect of the Fuji acquisition, net premium written increased 13 percent. The increase in Commercial Insurance was due to rate increases in Property, primarily in Japan. Consumer Insurance business in Asia Pacific countries outside Japan also expanded, supported by growth in nearly all lines of business, particularly individual personal accident insurance, travel, and auto products.

In EMEA, the increase in Commercial Insurance was primarily related to growth in specialty products in line with our strategic initiative to grow higher value lines. Excluding the impact of foreign exchange, Consumer Insurance decreased as the business was focused on rebuilding the direct marketing programs that we previously shared with ALICO and the non-renewal of certain business to retain underwriting discipline. These decreases were largely offset by growth in group accident insurance, automobile and specialty personal lines products.

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AIG Property Casualty Underwriting Ratios

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

Years Ended December 31,	2012	2011	2010	Increase (Decrease) 2012 vs. 2011	Increase (Decrease) 2011 vs. 2010
Commercial Insurance					
Loss ratio	**80.3**	84.1	89.3	(3.8)	(5.2)
Catastrophe losses and reinstatement premiums	**(10.9)**	(11.9)	(4.8)	1.0	(7.1)
Prior year development net of premium adjustments	**(1.2)**	1.9	(12.2)	(3.1)	14.1
Change in discount	**0.5**	0.2	1.9	0.3	(1.7)
Accident year loss ratio, as adjusted	**68.7**	74.3	74.2	(5.6)	0.1
Acquisition ratio	**16.6**	14.6	14.1	2.0	0.5
General operating expense ratio	**12.3**	9.9	10.8	2.4	(0.9)
Expense ratio	**28.9**	24.5	24.9	4.4	(0.4)
Combined ratio	**109.2**	108.6	114.2	0.6	(5.6)
Catastrophe losses and reinstatement premiums	**(10.9)**	(11.9)	(4.8)	1.0	(7.1)
Prior year development net of premium adjustments	**(1.2)**	1.9	(12.2)	(3.1)	14.1
Change in discount	**0.5**	0.2	1.9	0.3	(1.7)
Accident year combined ratio, as adjusted	**97.6**	98.8	99.1	(1.2)	(0.3)
Consumer Insurance					
Loss ratio	**60.9**	64.7	59.8	(3.8)	4.9
Catastrophe losses and reinstatement premiums	**(2.7)**	(5.2)	(0.6)	2.5	(4.6)
Prior year development net of premium adjustments	**0.1**	(0.6)	0.6	0.7	(1.2)
Accident year loss ratio, as adjusted	**58.3**	58.9	59.8	(0.6)	(0.9)
Acquisition ratio	**25.0**	23.8	26.5	1.2	(2.7)
General operating expense ratio	**15.3**	14.4	14.7	0.9	(0.3)
Expense ratio	**40.3**	38.2	41.2	2.1	(3.0)
Combined ratio	**101.2**	102.9	101.0	(1.7)	1.9
Catastrophe losses and reinstatement premiums	**(2.7)**	(5.2)	(0.6)	2.5	(4.6)
Prior year development net of premium adjustments	**0.1**	(0.6)	0.6	0.7	(1.2)
Accident year combined ratio, as adjusted	**98.6**	97.1	101.0	1.5	(3.9)
Total AIG Property Casualty					
Loss ratio	**73.9**	78.3	85.7	(4.4)	(7.4)
Catastrophe losses and reinstatement premiums	**(7.5)**	(9.2)	(3.3)	1.7	(5.9)
Prior year development net of premium adjustments	**(1.4)**	(0.3)	(14.9)	(1.1)	14.6

Change in discount	**0.2**	(0.1)	1.7	0.3	(1.8)
Accident year loss ratio, as adjusted	**65.2**	68.7	69.2	(3.5)	(0.5)
Acquisition ratio	**19.9**	18.1	18.3	1.8	(0.2)
General operating expense ratio	**14.8**	12.4	12.8	2.4	(0.4)
Expense ratio	**34.7**	30.5	31.1	4.2	(0.6)
Combined ratio	**108.6**	108.8	116.8	(0.2)	(8.0)
Catastrophe losses and reinstatement premiums	**(7.5)**	(9.2)	(3.3)	1.7	(5.9)
Prior year development net of premium adjustments	**(1.4)**	(0.3)	(14.9)	(1.1)	14.6
Change in discount	**0.2**	(0.1)	1.7	0.3	(1.8)
Accident year combined ratio, as adjusted	**99.9**	99.2	100.3	0.7	(1.1)

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

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

2012 and 2011 Comparison

Commercial Insurance Ratios

The improvement in the accident year loss ratio, as adjusted, for the year ended December 31, 2012 reflects the realization of benefits from the continued execution of our multi-faceted strategy to enhance risk selection, pricing discipline, exposure management and claims processing. Although the execution of these strategies resulted in a reduction of Casualty net premiums written, it also improved the accident year loss ratio as we remediated our primary and excess Casualty books in both the Americas and EMEA regions. Financial lines improved due to rate

strengthening and restructuring and re-underwriting of certain products. Property improved due to rate strengthening, enhanced engineering and exposure management.

The acquisition ratio increased by 2.0 points primarily due to our strategy of growing higher value lines, which typically incur higher acquisition costs, and the restructuring of our Casualty lines, especially the loss-sensitive

business in the U.S. In addition, ceding commissions decreased as a result of restructuring of the Property and Specialty reinsurance program as part of the strategic decision to retain more profitable business while continuing to manage aggregate exposures.

The general operating expense ratio increased by 2.4 points due to increases in bad debt expense, investments in strategic initiatives and human resources, coupled with a lower net premiums earned base. The lower net premiums earned base contributed approximately 0.2 points to the increase in the general operating expense ratio. Bad debt expense increased by approximately $143 million, which contributed approximately 0.7 points to the general operating expense ratio increase in the year ended December 31, 2012. For the year ended December 31, 2012, investments in strategic initiatives, commercial lines platform, our newly formed scientific group, underwriting and pricing tools totaled approximately $51 million, representing an increase of approximately $41 million over the prior year. The remainder of the general operating expense ratio increase was primarily due to higher personnel costs, as part of AIG's continued investment in its employees.

Consumer Insurance Ratios

The accident year loss ratio, as adjusted, in the year ended December 31, 2012 improved in both A&H and Personal lines. The improvement in A&H is primarily attributable to favorable underwriting performance of individual personal accident business in Asia Pacific, targeted underwriting actions, coupled with rate increases and risk selection of group A&H in the U.S. and the overall travel business. The improvement in Personal lines is primarily attributable to improved underwriting and risk selection in the warranty line of business, price sophistication and rate strengthening for Japan, EMEA automobile and the U.S. private client group, and targeted business mix changes that resulted in faster growth in non-automobile products than the automobile line of business. Included in the accident year loss ratio, as adjusted, for the year ended December 31, 2012, are severe losses totaling $33 million. There were no severe losses for the year ended December 31, 2011.

The acquisition ratio increased by 1.2 points primarily due to profit sharing arrangements in lines of business targeted for growth, direct marketing expenses and the reduction in VOBA benefit. Overall direct marketing costs increased by approximately 9 percent in 2012; total direct marketing spending outside the U.S. increased by approximately 18 percent in the same period. There was also a decrease of approximately $49 million in the benefit from the amortization of VOBA liabilities recognized at the time of the Fuji acquisition.

The general operating expense ratio increased by 0.9 points as a result of incurring additional expenses to grow key lines of business across a number of geographic areas and strategic expansion in growth economy nations. For the year ended December 31, 2012, investments in strategic initiatives, including investments in an integrated consumer lines platform and information systems infrastructure totaled approximately $44 million, representing an increase of approximately $27 million or 0.2 points over the prior year. The remainder of the increase was primarily due to higher personnel costs, as we continue our efforts to align employee performance across the globe with our strategic goals.

Other Category

We continued to invest in a number of strategic initiatives during 2012, including the implementation of global finance and information systems, preparation for Solvency II compliance, readiness for regulation by the FRB, legal entity restructuring, and underwriting and claims improvement initiatives. We also continued to streamline our finance, policy and claims administration and human resources operations. The costs of these initiatives, which are not specific to either Commercial Insurance or Consumer Insurance, are reported as part of the Other category. For the year ended December 31, 2012, such costs totaled $391 million, representing an increase of approximately $195 million over the prior year, and contributed approximately 1.1 points to the AIG Property Casualty general operating expense ratio.

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2011 and 2010 Comparison

Commercial Insurance Ratios

The Commercial Insurance accident year loss ratio, as adjusted, increased in 2011 due to increased losses for the Specialty Workers' Compensation and Excess Casualty business (in the Americas region) and the Primary Casualty and Professional Indemnity businesses (in the EMEA region). Severe losses were $296 million for the year ended December 31, 2011, compared to $135 million in the prior year. These increases were largely offset by rate strengthening and underwriting actions taken since 2010.

The acquisition ratio increased by 0.5 point in 2011 due to a change in the mix of business from low commission casualty business to higher commission property business, due to the underwriting actions taken since 2010, partially offset by rate strengthening.

The general operating expense ratio decreased by 0.9 points in 2011 compared to 2010 due to the overall growth in the business. In addition, the expense ratio reflects the effects of continued enhancements to regional governance, risk management capabilities and investments within growth economy nations.

Consumer Insurance Ratios

The accident year loss ratio, as adjusted, in the year ended December 31, 2011 decreased, primarily due to rate strengthening and underwriting actions taken since 2010 and strong results in direct marketing and individual personal accident business.

The acquisition ratio decreased by 2.7 points primarily due to the effects of the full year consolidation of Fuji results. Fuji has a lower average acquisition ratio than the rest of the Consumer Insurance business due in part to its business mix.

The general operating expense ratio decreased by 0.3 points, primarily due to the growth in the business offset by investments in strategic initiatives, including a consumer lines platform and the implementation of global finance and information systems totaling $16 million, an increase of approximately $9 million over the prior year.

Other Category

We increased investments in a number of strategic initiatives during 2011, including the implementation of improved regional governance and risk management capabilities, the implementation of global accounting and claims systems, preparation for Solvency II and certain other legal entity restructuring initiatives. For the year ended December 31, 2011, such investments totaled $196 million, representing an increase of approximately $134 million over the prior year, and contributed approximately 0.5 points to the AIG Property Casualty general operating expense ratio.

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The following table presents AIG Property Casualty accident year catastrophe losses, by major event and severe losses:

Years Ended December 31,	2012				2011				2010			
(in millions)	# of Events	Commercial Insurance	Consumer Insurance	Total	# of Events	Commercial Insurance	Consumer Insurance	Total	# of Events	Commercial Insurance	Consumer Insurance	Total
Event:(a)												
Storm Sandy(b)	1	$ 1,691	$ 322	$ 2,013		$	$	$		$	$	$
U.S. Windstorms	8	326	13	339	4	383	14	397	8	291	51	342
U.S. Drought	1	108		108								
Hurricane Isaac	1	56	22	78								
Hurricane Irene					1	296	73	369				
Thailand Flood					1	366	2	368				
Tohoku Catastrophe(c)					1	667	524	1,191				
New Zealand earthquakes					2	344	7	351				
Chile earthquake									1	289	2	291
Southeast U.S. flood									1	171	4	175
All other events	3	62	25	87	13	525	95	620	9	249	9	258
Claims and claim expenses		2,243	382	2,625		2,581	715	3,296		1,000	66	1,066
Reinstatement premiums		27		27		11		11		10		10
Total catastrophe-related charges	14	$ 2,270	$ 382	$ 2,652	22	$ 2,592	$ 715	$ 3,307	19	$ 1,010	$ 66	$ 1,076
Total severe losses and loss adjustment expense	23	$ 293	$ 33	$ 326	21	$ 296	$	$ 296	12	$ 135	$ 12	$ 147

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

(b) On October 29, 2012 Storm Sandy, one of the largest Atlantic hurricanes on record, came ashore in the U.S. When the storm made landfall, it was categorized as an extratropical cyclone, not a hurricane. Storm Sandy is expected to be the second-costliest Atlantic hurricane in history, only surpassed by Hurricane Katrina in 2005. Storm Sandy caused widespread flooding and wind damage across the mid-Atlantic states.

(c) On March 11, 2011, a major earthquake occurred near the northeast coast of Honshu, Japan, triggering a tsunami in the Pacific Ocean. This disaster is referred to as the Tohoku Catastrophe.

AIG Property Casualty Investing and Other Results

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

Years Ended December 31, (in millions)	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Net investment income					
Commercial Insurance	**$ 2,809**	$ 3,213	$ 3,309	(13)%	(3)%
Consumer Insurance	**451**	354	301	27	18
Other	**1,560**	781	782	100	
Total net investment income	**4,820**	4,348	4,392	11	(1)
Net realized capital gains (losses)	**(2)**	607	(38)	NM	NM
Legal settlement	**17**			NM	NM
Bargain purchase gain			332	NM	NM
Other income (expense) net*	**2**	(5)	669	NM	NM
Investing and other results	**$ 4,837**	$ 4,950	$ 5,355	(2)%	(8)%

* Includes gain on divested properties of $669 million in 2010

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

Investment income is allocated to the Commercial Insurance and Consumer Insurance operating segments based on an internal investment income allocation model. The model estimates investable funds based primarily on loss reserves, unearned premium and a capital allocation for each segment. The investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus an illiquidity premium) consistent with the approximate duration of the liabilities. The actual yields in excess of the allocated amounts and the investment

income from the assets not attributable to the Commercial Insurance and the Consumer Insurance operating segments are assigned to the Other category.

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

2012 and 2011 Comparison

Net Investment Income

Net investment income is influenced by a number of factors including the amounts and timing of inward and outward cash flows, the level of interest rates and changes in overall asset allocation. Net investment income increased $472 million or 11 percent in 2012, compared to 2011, primarily due to the impact of the overall diversification in the asset portfolio during the year. We adopted yield-enhancement initiatives in 2011, and continued through 2012, which increased the average yield of our investment portfolio by 0.3 points to 4.0 percent during 2012.

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

Our invested asset portfolio grew by approximately $4.3 billion, or 3 percent during the year with declining interest rates and narrowing spreads in both investment grade and higher yield asset classes contributing to higher unrealized appreciation in our portfolio.

Net investment income from other investment categories increased by $160 million in 2012 compared to 2011, of which $82 million was attributed to the strong performance of equity partnership investments, following a 16 percent increase in the S&P 500 Index during 2012. Other investment income also increased by $72 million due to the strategic group benefits partnership with AIG Life and Retirement, all of which is reported in Consumer Insurance.

Net Realized Capital Gains (Losses)

Net realized capital losses for the year ended December 31, 2012 were driven by other-than-temporary impairments and impairment charges on life settlement contracts offset by gains recognized on the sale of fixed maturity and equity securities. We recognized other-than-temporary impairment charges of $377 million primarily attributable to a decrease in recoverable values for structured securities, partnership investments and equity securities in an unrealized loss position for more than 12 months. During 2012, we recognized impairment charges on life settlement contracts in the amount of $309 million as a result of decreases in their estimated fair value as well as a change in management's intent about continuing to hold certain life settlement contracts. In addition, we recognized a loss of $43 million from derivatives used to economically hedge foreign currency positions. These decreases were offset by gains recognized on the sale of fixed maturity and equity securities in the amount of $675 million and a gain on the sale of a property in the amount of $55 million.

See Consolidated Results for further discussion on net investment income and net realized capital gains (losses).

Legal Settlements

In December of 2012, we recorded litigation settlement income from settlements with three financial institutions who participated in the creation, offering and sale of RMBS as to which AIG and its subsidiaries suffered losses either directly on their own account or in connection with their participation in AIG's securities lending program.

2011 and 2010 Comparison

Net Investment Income

Net investment income decreased slightly in 2011 compared to 2010. We experienced declines in private equity and hedge fund income, as well as increases in investment expenses, which were largely offset by increases in interest income. The decrease in private equity and hedge fund income reflects the decline in the overall equity markets during the second half of 2011. The increase in investment expenses in 2011 resulted mainly from increases in both

internal and external investment management fees. The interest income increase reflects the redeployment of cash and short term instruments into longer term, higher yield securities. In addition, 2011 reflects a full year of interest income related to Fuji.

Net Realized Capital Gains (Losses)

Net realized capital gains were recorded in 2011, compared to losses in 2010. We recorded gains on the sales of fixed maturity securities; a decrease in other-than-temporary impairment charges; gains from improvements in foreign currency exchange rates; and gains from derivative instruments that do not qualify for hedge accounting, resulting primarily from declining long term interest rates. These derivative instruments economically hedge products that provide benefits over an extended period of time. Net realized capital gains on sales of fixed maturity securities increased due to our strategy to better align investment allocations with current overall performance and income tax planning objectives.

These gains were partially offset by impairments within other invested assets, primarily life settlement contracts. For the years 2011 and 2010, we recorded impairment charges of $351 million and $78 million, respectively, related to life settlement contracts. These charges included approximately $38 million and $4 million of impairments, respectively, associated with life insurance policies issued by AIG Life and Retirement that are eliminated in consolidation.

During 2011, we experienced an increase in the number of life settlement contracts identified as potentially impaired, compared to previous analyses. This increase reflected a new process adopted by us, in which updated medical information on individual insured lives is requested on a routine basis. In some cases, this updated information indicates that an individual's health has improved, resulting in an impairment loss due to revised estimates of net cash flows from the related contract. In addition, our domestic operations refined our fair values based upon the availability of recent medical information.

See Consolidated Results for further discussion on net investment income and net realized capital gains (losses).

Bargain Purchase Gain

On March 31, 2010, we purchased additional voting shares in Fuji which resulted in the effective control and consolidation of Fuji. This acquisition resulted in a bargain purchase gain of $0.3 billion, which was included in the Consolidated Statement of Income (Loss) in Other Income. The bargain purchase gain was primarily attributable to the depressed market value of Fuji's common stock, which we believed was the result of macro-economic, capital market and regulatory factors in Japan coupled with Fuji's financial condition and results of operations.

Liability for Unpaid Claims and Claims Adjustment Expense

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

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

At December 31, *(in millions)*	2012	2011
Other liability occurrence	$ 21,533	$ 22,471
International	17,453	17,726
Workers' compensation (net of discount)	17,319	17,420
Other liability claims made	11,443	11,216
Property	4,961	6,165
Auto liability	3,060	3,081
Products liability	2,195	2,416
Medical malpractice	1,651	1,690
Mortgage guaranty / credit	1,957	3,101
Accident and health	1,518	1,553
Commercial multiple peril	1,310	1,134
Aircraft	1,065	1,020
Fidelity/surety	647	786
Other	1,879	1,366
Total	$ 87,991	$ 91,145

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

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

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

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

December 31, *(in millions)*	2012	2011
AIG Property Casualty:		
Commercial Insurance	$ 56,462	$ 57,718
Consumer Insurance	5,592	5,438
Other	4,895	4,823
Total AIG Property Casualty	66,949	67,979
Other operations Mortgage Guaranty	1,833	2,846
Net liability for unpaid claims and claims adjustment expense at end of year	$ 68,782	$ 70,825

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Discounting of Reserves

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

December 31, *(in millions)*		2012		2011
U.S. workers' compensation:				
Tabular	$	**801**	$	777
Non-tabular		**2,394**		2,318
Asbestos		**51**		88
Total	$	**3,246**	$	3,183

See Note 13 to the Consolidated Financial Statements for additional information on discounting of loss reserves.

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

Years Ended December 31, *(in millions)*			2012		2011		2010
Change in loss reserve discount	current accident year	$	**348**	$	342	$	381
Change in loss reserve discount	prior year development		**87**		(22)		527
Accretion of reserve discount			**(372)**		(354)		(346)
Net reserve discount benefit (charge)		$	**63**	$	(34)	$	562

The benefit from the change in discount in the year ended December 31, 2012 includes a $100 million increase in the reserve discount due to the commutation of an internal reinsurance treaty, under which a U.S. subsidiary previously ceded workers' compensation claims to a non-U.S. subsidiary. AIG discounts its loss reserves related to workers' compensation business written by its U.S. domiciled subsidiaries as permitted by the domiciliary statutory regulatory authorities. As a result of the commutation, the reserves for these claims are now recorded in a U.S. insurance subsidiary and accordingly are being discounted commencing in the three-month period ended June 30, 2012. The commutation was implemented as part of AIG Property Casualty's efforts to simplify its internal reinsurance arrangements.

Annual Reserving Conclusion

AIG net loss reserves represent our best estimate of our liability for net losses and loss expenses as of December 31, 2012. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of December 31, 2012. In our opinion, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on AIG's consolidated financial condition, although such events could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period.

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The following table presents the rollforward of net loss reserves:

Years Ended December 31, (in millions)	2012	2011	2010
Net liability for unpaid claims and claims adjustment expense at beginning of year	$ 70,825	$ 71,507	$ 67,899
Foreign exchange effect	757	353	(126)
Acquisitions[a]			1,538
Dispositions[b]	(11)		(87)
Change due to NICO reinsurance transaction	90	(1,703)	
Losses and loss expenses incurred:			
Current year, undiscounted	25,385	27,931	24,455
Prior years, undiscounted[c]	421	195	4,182
Change in discount	(63)	34	(562)
Losses and loss expenses incurred	25,743	28,160	28,075
Losses and loss expenses paid:			
Current year	9,297	11,534	9,873
Prior years	19,325	15,958	15,919
Losses and loss expenses paid	28,622	27,492	25,792
Net liability for unpaid claims and claims adjustment expense at end of year	$ 68,782	$ 70,825	$ 71,507

(a) Represents the acquisition of Fuji on March 31, 2010.

(b) Includes amounts related to dispositions through the date of disposition.

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

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

Years Ended December 31, (in millions)	2012	2011	2010
Prior accident year development by accident year:			
Accident Year			
2011	$ (162)	$	$
2010	(75)	402	
2009	(45)	117	(61)
2008	(150)	(294)	286
2007	157	(172)	528
2006	(20)	(273)	199
2005	112	(164)	113
2004	33	(16)	134
2003	13	13	73
2002 and prior	558	582	2,910

Total	**$ 421**	$ 195	$ 4,182

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

Years Ended December 31, *(in millions)*	2012	2011	2010
Prior accident year development by major class of business:			
Commercial Insurance:			
Excess casualty U.S.	$ 262	$ (414)	$ 1,071
D&O and related management liability U.S.	(307)	(167)	94
Environmental (post 1986 ongoing) U.S.	161	32	
Commercial risk U.S.	46	265	224
Healthcare U.S.	68	(45)	(75)
Primary (specialty) workers' compensation U.S.	46	145	518
Primary casualty U.S.	367	247	633
Natural catastrophes:			
U.S.	(144)	9	18
International	(105)	(84)	(11)
All other, net:			
U.S.	42	(175)	12
International	(146)	(96)	93
Total all other, net	(104)	(271)	105
Total Commercial Insurance	290	(283)	2,577
Total Consumer Insurance	(20)	85	(63)
Other			
Asbestos and environmental (1986 and prior)			
U.S.	70	29	1,151
International	6		352
Total asbestos and environmental	76	29	1,503
Environmental (1987 - 2004) U.S.	166	382	14
Excess workers' compensation U.S.			825
All other, net	(13)	(2)	(6)
Total Other	229	409	2,336
Total AIG Property Casualty	499	211	4,850
Other operations Mortgage Guaranty	(78)	(16)	(668)
Total	$ 421	$ 195	$ 4,182

Net Loss Development by Class of Business

In determining the loss development from prior accident years, we analyze and evaluate the change in estimated ultimate loss for each accident year by class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result

in a larger change, either favorable or unfavorable. As appropriate, we make adjustments for the difference between the actual and expected loss emergence. As part of our reserving process, we also consider notices of claims received with respect to emerging and/or evolving issues, such as those related to the U.S. mortgage and housing market.

The following is a discussion of the primary reasons for the development in 2012, 2011 and 2010 of those classes of business that experienced significant prior accident year development during the three-year period. See Critical Accounting Estimates for a description of our loss reserving process.

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Excess Casualty U.S.

The excess casualty segment presents unique challenges for estimating the unpaid claims. Insureds are generally required to provide notice of claims that exceed a threshold, either expressed as a proportion of the attachment (e.g., 50 percent of the attachment) or as particular types of claims (e.g., death, quadriplegia). This threshold is generally established well below our attachment point, in order to provide us with a precautionary notice of claims that could potentially pierce our layer of coverage. This means that the majority of claims close without payment because the claims never pierce our layer, while the claims that close with payment can be large and highly variable. Thus, estimates of unpaid claims carry significant uncertainty.

During 2012, the excess casualty class of business experienced $262 million of adverse development based on worse than expected emergence in 2012, primarily from adverse outcomes relating to certain large claims from older accident years, from the legacy public entity excess casualty class of business and from a refined analysis applied to claims in excess of $10 million. This refined analysis considers the impact of changing attachment points (primarily impacting frequency of excess claims) and limit structures (primarily impacting severity of excess claims) throughout the loss development period.

During 2011 the excess casualty business segment experienced better than expected loss emergence, based on the shorter-termed loss development pattern from the year-end 2010 reserve analysis. However, accident year 2010 experienced some large catastrophic losses causing its results to be worse than expected.

Loss development was affected by an increase in loss costs in 2010, primarily due to medical inflation, which increased the economic loss component of tort claims; advances in medical care, which extended the life span of severely injured claimants; and larger jury verdicts, which increased the value of severe tort claims.

Director and Officer (D&O) and Related Management Liability U.S.

We experienced favorable development in 2012 and 2011. The favorable development over the two-year period related primarily to accident years 2005-2007, 2010, and, to a lesser extent, accident years 2001 and 2002. Development in 2010 was slightly negative.

For the year-end 2012 loss reserve review, our actuaries took into account the favorable emergence during 2012 for several accident years, especially accident year 2010, the claims department's reviews of open claims and reduced the ultimate losses for prior years accordingly. The 2012 actuarial review also adopted a refined segmentation for this class of business with the selection of differentiated frequency and severity trends. The overall loss cost trend adopted for this class of business in 2012 from the application of the refined segmentation was slightly lower than that adopted for the 2011 review reflecting the continued favorable emergence from this class of business.

For the year-end 2011 loss reserve reviews, our actuaries took into account the favorable development from prior accident years, as well as the continuing favorable development observed in the ground-up claims projections by our claims staff over the past five years.

Excess Workers' Compensation U.S.

This class of business has an extremely long tail and is one of the most challenging classes of business to reserve for, particularly when the excess coverage is provided above a self-insured retention layer. The class is highly sensitive to small changes in assumptions in the rate of medical inflation or the longevity of injured workers, for example which can have a significant effect on the ultimate reserve estimate.

During the 2012 loss reserve review, we augmented traditional reserve methodologies with an analysis of underlying claims cost drivers to inform our judgment of the ultimate loss costs for open reported claims from accident years 2003 and prior (representing approximately 95 percent of all open reported claims) and used the refined analysis to inform our judgment of the ultimate loss cost for claims that have not yet been reported using a frequency/severity approach for these accident years.

The approach was deemed to be most suitable for injured workers whose medical conditions had largely stabilized (i.e., at least 9 to 10 years have elapsed since the date of injury). The reserves for accident years 2004 and subsequent (13 percent of total case and IBNR reserves for this class) were determined using traditional methods. See Critical Accounting Estimates for additional information.

The refined analysis confirmed that significant uncertainty remains for this class of business, especially from unreported claims and from the propensity for future medical deterioration. Based on the more refined analysis we did not recognize any material development for accident years 2011 and prior.

AIG experienced significant adverse development of $825 million for this class in 2010. With the passage of the Affordable Care Act in March 2010, we concluded that there is increased vulnerability to the risk of further cost-shifting to the excess workers' compensation class of business. Settlement efforts can also be affected by changes to evaluation protocols implemented by the Centers for Medicare & Medicaid Services in 2009. These changes were expected to result in future prescription drug costs being borne by workers' compensation insurers to a significantly greater degree than in the past, and were assessed as being likely to lead to further deteriorating trends for the excess workers' compensation class of business.

As part of our 2010 comprehensive loss reserve analysis, we compared and contrasted the traditional techniques that have been used for this class with an alternative approach that focuses more explicitly on projecting the effect of future calendar year trends, while placing less weight on prior-period loss development ratios due to the increased evidence of changes to the claims environment. These various actuarial analyses indicated a substantial increase in loss estimates from the prior-year level, primarily for accident years 2002 and prior.

Healthcare U.S.

During 2012, this class recognized $68 million of adverse prior year development due to several large claims that involved unusual coverage issues for this class. With the exception of these claims, this class experienced claim activity in line with expectations.

Healthcare business written by AIG Property Casualty's Americas region produced moderate favorable development in 2011 and 2010. Healthcare loss reserves have benefited from favorable market conditions and an improved legal environment in accident years 2002 and subsequent, following a period of adverse loss trends and market conditions that began in the mid 1990s.

Environmental

We maintain an active environmental insurance business related to pollution legal liability and general liability for environmental consultants and engineers, as well as runoff business for certain environmental coverage (including Cost Cap Containment) which provides cost overrun protection. We evaluate and report reserves associated with this business separately from the 1986 and prior asbestos and environmental reserves associated with standard General Liability and Umbrella policies discussed in "Asbestos and Environmental Reserves".

Because of an increase in the frequency and severity of claims observed beginning in 2011, the 2012 loss reserve review consisted of an intensive review of reported claims by a multi-disciplinary team including external experts in environmental law and engineering science, toxicologists and other experts, our actuaries, claims managers and underwriters to reassess our indicated loss reserve need. The review improved our understanding of factors that drive claim costs such as policy term, limit, pollution conditions covered, location of incident and applicable laws and remediation standards. The analysis used these factors to segment and analyze the claim data to determine ultimate costs, in some cases, on a claim by claim basis. As a result of this analysis, $326 million of prior year adverse development was recognized during 2012, including $166 million reported in the AIG Property Casualty Other reporting unit related to lines that are now in runoff. The majority (81 percent) of the adverse development related to accident years 2003 and prior, before significant underwriting changes were adopted.

Historically, we had used traditional actuarial methods to assess the reserves for the environmental products. The comprehensive claims review provided a more refined approach for the development of actuarial estimates for toxic tort claims (which were found to have a distinctly lengthier loss development pattern than other general liability claims in the environmental portfolio) as well as a more appropriate methodology for incorporating case reserving based estimates of ultimate loss costs for complex claims involving environmental remediation and/or from policies with high policy limits (greater than $5 million per policy). Notwithstanding the refined methodology and approach applied in 2012, considerable uncertainty remains over the ultimate loss cost for this class of business, especially for business written in accident years 2003 and prior.

We strengthened our post 1986 Environmental reserves in 2011 by $413 million, partly due to large reserve increases on individual claims. Of this amount, $382 million was included in the AIG Property Casualty Other

reporting unit. Approximately 80 percent of the 2011 development was associated with accident years 2003 and prior.

In addition to reserving actions, we have made significant changes to the ongoing environmental business included in Commercial with the goal of ensuring that the current policies are being written to earn an appropriate risk adjusted profit. Underwriting guidelines have been revised to no longer cover known or expected clean up costs, which were a significant driver of historical claims, and a "new emerging contaminants" team has been formed within the dedicated environmental engineering staff to track any new cleanup standards that may be set by federal or state regulators. The percentage of long term policies (ten years or more) has decreased from a historical average of 6 percent to 1.5 percent by policy count. In addition, minimum retentions have been increased, and engineering reviews are required for specific business segments (such as oil and gas, and landfills) that have traditionally generated higher losses.

Primary Workers' Compensation and General Liability in Commercial Risk, Specialty Workers' Compensation and Energy Business units

The Commercial Risk division writes casualty insurance accounts for businesses with revenues of less than $700 million. The majority of the business is workers' compensation. The Energy division writes casualty insurance accounts (including workers' compensation) in the mining, oil and gas and power generation sectors. The Commercial Specialty Workers' Compensation division writes small monoline guaranteed cost risks. Our Commercial Specialty Workers' Compensation business unit grew significantly in the early to mid 2000s but has reduced premium writings by nearly 70 percent since 2007.

During 2012, we significantly intensified our claims management efforts for those primary workers' compensation claims which are managed by AIG. These efforts include consulting with various specialists, including clinical and public health professionals and other advisors. We also continued to refine our actuarial methodologies for estimating ultimate loss costs incorporating a more refined segmentation by state (California and New York were analyzed separately) and a more refined approach for business subject to deductibles as well as business subject to premium adjustments (loss-sensitive business). Based on these enhanced reviews we increased reserves by $46 million. We also reviewed the General Liability (GL) loss experience of the primary casualty classes of business using a more refined segmentation for business subject to a deductible as well as loss-sensitive business. Our review focused on applying actuarial loss development analyses to those GL claims for which these techniques are appropriate. As a result of this analysis, we determined that prior year reserves needed to be increased by $235 million for the primary GL class of business in 2012 to reflect the worse than expected emergence of paid loss severities for both bodily injury and property damage claims from the more recent accident years (2008 and subsequent).

The Commercial Risk, Commercial Specialty Workers' Compensation and Energy divisions contributed $265 million, $145 million and $115 million, respectively, of adverse development in calendar year 2011. The vast majority of this adverse development emanates from primary workers' compensation exposure, which was largely from accident year 2010. In 2011, losses for accident year 2010 continued to emerge at higher levels than anticipated at prior year end. A key driver was the effect of high unemployment on the frequency of higher severity lost time claims. The poor economic environment precluded some employers from offering "light duty" return-to-work alternatives that might otherwise have mitigated lost time claims. At the same time, the increased use of pain management strategies has led to increased medical claims. The increase in lost time frequency and the adverse effects of medical cost trends resulted in higher loss ratios than anticipated at prior year end. For each of the three classes, our conclusion that the worsening experience necessitated a strengthening of the reserves was confirmed by an independent third-party actuarial review during 2011.

We recorded a total of $518 million of adverse loss development for Commercial Specialty Workers' Compensation in 2010. The need to strengthen the reserves was confirmed by an independent third-party actuarial review during the fourth quarter of 2010. Approximately 75 percent of the year-end 2010 reserve strengthening for this business pertained to accident years 2007 through 2009. For similar reasons, the Commercial Risk division strengthened workers' compensation reserves in 2010.

For more information on our Loss Reserving Process, see Critical Accounting Estimates.

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Asbestos and Environmental Reserves

Third-Party Actuarial Review of Asbestos Loss Reserve Estimates

As part of our more in-depth comprehensive loss-reserve review in the fourth quarter of 2010, we conducted a series of top-down and ground-up reserve analyses to determine the appropriate loss reserve estimate for our asbestos exposures. To ensure the most comprehensive analysis possible, we engaged an independent third-party actuarial firm to assist in assessing these exposures. The ground-up study conducted by this firm used a proprietary model to calculate the loss exposure on an insured-by-insured basis. We believe that the accuracy of the reserve estimate is greatly enhanced through the combination of the actuarial firm's industry modeling techniques and industry knowledge and our own specific account-level experience.

Annually, we consider a number of factors and recent experience in addition to the results of the top-down and ground-up analyses performed for asbestos and environmental reserves. We considered the significant uncertainty that remains as to our ultimate liability for asbestos and environmental claims, which is due to several factors:

- the long latency period between asbestos exposure and disease manifestation, leading to the potential for involvement of multiple policy periods for individual claims;
- claims filed under the non-aggregate premises or operations section of general liability policies;
- the number of insureds seeking bankruptcy protection and the effect of prepackaged bankruptcies;
- diverging legal interpretations; and
- the difficulty in estimating the allocation of remediation cost among various parties with respect to environmental claims.

As a result of the top-down and ground-up reserve analyses and the factors considered, asbestos reserves were strengthened by $3.3 billion gross and $1.5 billion net in 2010.

In 2011, we completed a top-down report year projection as well as a market share projection of our indicated asbestos and environmental loss reserves. These projections consisted of a series of tests performed separately for asbestos and for environmental exposures.

For asbestos, these tests project the losses expected to be reported through 2027. This projection was based on the actual losses reported through 2011 and the expected future loss emergence for these claims. Three scenarios were tested, with a series of assumptions ranging from more optimistic to more conservative.

For environmental claims, a comparable series of frequency/severity tests were produced. We updated the top-down report year projections in 2012. In this updated projection, environmental claims from future report years (i.e., IBNR) are projected out ten years, through the year 2022.

As a result of the studies, we determined that no additional strengthening was required for asbestos and environmental in 2011.

After we carefully considered the recent experience compared to the results of the 2010 ground-up analysis, as well as all of the above factors, no adjustment to gross and net asbestos reserves was recognized in 2012. Additionally in 2012, a moderate amount of incurred loss pertaining to the asbestos loss reserve discount is reflected in the table below and is related to the reserves not subject to the NICO reinsurance agreement.

Upon completion of the environmental top-down analysis performed in the fourth quarter of 2012, we concluded that the $75 million net reserve strengthening recognized in the first half of 2012 was adequate.

In addition to the U.S. asbestos and environmental reserve amounts shown in the tables below, AIG Property Casualty also has asbestos reserves relating to foreign risks written by non-U.S. entities of $140 million gross and $116 million net as of December 31, 2012. The asbestos reserves relating to non-U.S. risks written by non-U.S. entities were $233 million gross and $165 million net as of December 31, 2011.

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

As of or for the Years Ended December 31,	2012		2011		2010	
(in millions)	Gross	Net	Gross	Net	Gross	Net
Asbestos:						
Liability for unpaid claims and claims adjustment expense at beginning of year	$ 5,226	$ 537	$ 5,526	$ 2,223	$ 3,236	$ 1,151
Change in net loss reserves due to retroactive reinsurance:						
Paid losses recoverable under retroactive reinsurance contracts		111		111		
Re-estimation of amounts recoverable under retroactive reinsurance contracts(a)		(21)		(1,814)		
Change in net loss reserves due to retroactive reinsurance		90		(1,703)		
Dispositions	(10)	(10)			(17)	(8)
Loss and loss expenses incurred:						
Prior years, undiscounted	1	1	2	2	3,326	1,479
Change in discount	83	37	190	74	(386)	(162)
Losses and loss expenses incurred(b)	84	38	192	76	2,940	1,317
Losses and loss expenses paid(b)	(404)	(228)	(492)	(236)	(633)	(237)
Other changes				177		
Liability for unpaid claims and claims adjustment expense at end of year	$ 4,896	$ 427	$ 5,226	$ 537	$ 5,526	$ 2,223
Environmental:						
Liability for unpaid claims and claims adjustment expense at beginning of year	$ 204	$ 119	$ 240	$ 127	$ 338	$ 159
Dispositions	(1)	(1)			(27)	(10)
Losses and loss expenses incurred	150	75	33	27	23	24
Losses and loss expenses paid	(44)	(30)	(69)	(35)	(94)	(46)
Liability for unpaid claims and claims adjustment expense at end of year	$ 309	$ 163	$ 204	$ 119	$ 240	$ 127
Combined:						
Liability for unpaid claims and claims adjustment expense at beginning of year	$ 5,430	$ 656	$ 5,766	$ 2,350	$ 3,574	$ 1,310

Change in net loss reserves due to retroactive reinsurance:						
Paid losses recoverable under retroactive reinsurance contracts		111		111		
Re-estimation of amount recoverable under retroactive reinsurance contracts		(21)		(1,814)		
Change in net loss reserves due to retroactive reinsurance		90		(1,703)		
Dispositions	(11)	(11)			(44)	(18)
Losses and loss expenses incurred:						
Undiscounted	151	76	35	29	3,349	1,503
Change in discount	83	37	190	74	(386)	(162)
Losses and loss expenses incurred	234	113	225	103	2,963	1,341
Losses and loss expenses paid	(448)	(258)	(561)	(271)	(727)	(283)
Other changes				177		
Liability for unpaid claims and claims adjustment expense at end of year	$ 5,205	$ 590	$ 5,430	$ 656	$ 5,766	$ 2,350

(a) Re-estimation of amounts recoverable under retroactive reinsurance contracts includes effect of changes in reserve estimates and changes in discount. Additionally, the 2011 Net amount includes the effect on net loss reserves of the initial cession to NICO.

(b) These amounts exclude benefit from retroactive reinsurance.

Transfer of Domestic Asbestos Liabilities

On June 17, 2011, we completed a transaction under which the bulk of AIG Property Casualty's net domestic asbestos liabilities were transferred to NICO, a subsidiary of Berkshire Hathaway, Inc. This was part of our ongoing strategy to reduce our overall loss reserve development risk. This transaction covers potentially volatile U.S.-related asbestos exposures. It does not, however, cover asbestos accounts that we believe have already been reserved to their limit of liability or certain other ancillary asbestos exposure assumed by AIG Property Casualty subsidiaries.

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Upon the closing of this transaction, but effective as of January 1, 2011, we ceded the bulk of AIG Property Casualty's net domestic asbestos liabilities to NICO under a retroactive reinsurance agreement with an aggregate limit of $3.5 billion. Within this aggregate limit, NICO assumed collection risk for existing third-party reinsurance recoverable associated with these liabilities. AIG Property Casualty paid NICO approximately $1.67 billion as consideration for this cession and NICO assumed approximately $1.82 billion of net U.S. asbestos liabilities. As a result of this transaction, AIG Property Casualty recorded a deferred gain of $150 million in the second quarter of 2011, which is being amortized into income over the settlement period of the underlying claims.

The following table presents the estimate of the gross and net IBNR included in the Liability for unpaid claims and claims adjustment expense, relating to asbestos and environmental claims:

December 31,	2012		2011		2010	
(in millions)	Gross	Net*	Gross	Net*	Gross	Net
Asbestos	**$ 3,193**	**$ 37**	$ 3,685	$ 239	$ 4,520	$ 1,964
Environmental	**75**	**35**	57	28	93	38
Combined	**$ 3,268**	**$ 72**	$ 3,742	$ 267	$ 4,613	$ 2,002

* Net IBNR includes the reduction due to the NICO reinsurance transaction of $1,310 million and $1,414 million as of December 31, 2012 and 2011, respectively. A significant part of the reduction in IBNR in 2012 is due to the reclassification of estimated liabilities on a retained account from IBNR to case reserves.

The following table presents a summary of asbestos and environmental claims count activity:

As of or for the Years	2012			2011			2010		
Ended December 31,	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	**5,443**	**3,782**	**9,225**	4,933	4,087	9,020	5,417	5,994	11,411
Claims during year:									
Opened	**226**	**222**	**448**	141	207	348	502	354	856
Settled	**(254)**	**(179)**	**(433)**	(183)	(83)	(266)	(247)	(125)	(372)
Dismissed or otherwise resolved[(a)]	**(185)**	**(2,211)**	**(2,396)**	(289)	(429)	(718)	(739)	(2,136)	(2,875)
Other[(b)]				841		841			
Claims at end of year	**5,230**	**1,614**	**6,844**	5,443	3,782	9,225	4,933	4,087	9,020

(a) The number of environmental claims dismissed or otherwise resolved, increased substantially during 2012 as a result of AIG Property Casualty's determination that certain methyl tertiary-butyl ether (MTBE) claims presented no further potential for exposure since these underlying claims were resolved through dismissal, settlement, or trial for all of the accounts involved. All of these accounts were fully reserved at the account level and included adequate reserves for those underlying individual claims that contributed to the actual losses. These individual claim closings, therefore, had no impact on AIG Property Casualty's environmental reserves.

(b) Represents an administrative change to the method of determining the number of open claims, which had no effect on carried reserves.

Survival Ratios Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at December 31, 2012, 2011 and 2010. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would take before the current ending loss reserves for these claims would be paid off using recent year average payments.

Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resulting survival ratio. Additionally, we primarily base our determination of these reserves based on ground-up and top-down analyses, and not on survival ratios.

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The following table presents survival ratios for asbestos and environmental claims, separately and combined, which were based upon a three-year average payment:

Years Ended December 31,	2012		2011		2010	
	Gross	Net*	Gross	Net*	Gross	Net
Survival ratios:						
Asbestos	**9.6**	**8.7**	9.1	10.3	8.6	9.2
Environmental	**4.5**	**4.4**	3.0	3.1	3.7	3.2
Combined	**9.0**	**8.1**	8.4	9.3	8.1	8.4

* Survival ratios are calculated consistent with the basis on historical reserve excluding the effects of the NICO reinsurance transaction.

AIG Life and Retirement

AIG Life and Retirement Highlights

The results of AIG Life and Retirement for 2012 and 2011 reflected the following:

- Disciplined spread management, primarily through the effect of reinvestment during 2011 of significant amounts of cash and short term investments and crediting rate changes, resulted in improvements in base net investment spreads for 2012. Private equity and hedge fund investment income increased $112 million in 2012 compared to 2011.

- Investment income from the ML II investment prior to its liquidation and distribution in March 2012 increased $200 million in 2012 compared to 2011.

- More favorable separate account performance driven in large part by equity markets had a positive effect on policyholder benefits and DAC amortization expenses for 2012.

- Reserve increases related to enhanced death claim practices in connection with the resolution of multi-state examinations were lower in 2012 compared to 2011.

- Higher net realized capital gains from the sale of investments were reflected in 2012 in conjunction with a program to utilize capital loss tax carryforwards. The sales of securities in unrealized gain positions that support certain payout annuity products, and subsequent reinvestment of the proceeds at generally lower yields, triggered loss recognition accruals in 2012.

AIG Life and Retirement Operations

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

AIG Life and Retirement presents its business in two operating segments:

- *Life Insurance*, which focuses on mortality and morbidity-based protection products, and

Retirement Services, which focuses on investment, retirement savings and income solution products.

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AIG Life and Retirement Results

The following table presents AIG Life and Retirement results:

Years Ended December 31, *(in millions)*	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Life Insurance:					
Revenue:					
Premiums	$ 2,428	$ 2,513	$ 2,520	(3)%	%
Policy fees	1,465	1,478	1,576	(1)	(6)
Net investment income	4,101	3,925	4,313	4	(9)
Other income	1	3		(67)	NM
Operating expenses:					
Policyholder benefits and claims incurred	4,511	4,510	4,277		5
Interest credited to policyholder account balances	822	851	843	(3)	1
Amortization of deferred acquisition costs	467	389	596	20	(35)
Other acquisition and insurance expenses	1,059	1,126	1,140	(6)	(1)
Operating income	1,136	1,043	1,553	9	(33)
Net realized capital gains (losses)	1,471	363	(75)	305	NM
Legal settlements	43			NM	NM
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	(684)	(19)	(37)	NM	49
Pre-tax income	$ 1,966	$ 1,387	$ 1,441	42%	(4)%
Retirement Services:					
Revenue:					
Policy fees	$ 1,326	$ 1,227	$ 1,134	8%	8%
Net investment income	6,617	5,957	6,455	11	(8)
Other income	8	206		(96)	NM
Operating expenses:					
Policyholder benefits and claims incurred	22	104	(1)	(79)	NM
Interest credited to policyholder account balances	3,540	3,616	3,644	(2)	(1)
Amortization of deferred acquisition costs	345	477	375	(28)	27
Other acquisition and insurance expenses	1,020	959	1,068	6	(10)
Operating income	3,024	2,234	2,503	35	(11)
Legal settlements	111			NM	NM
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities	37			NM	NM
Net realized capital losses	(841)	(357)	(1,176)	(136)	70
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital losses	(517)	(308)	(67)	(68)	(360)

Pre-tax income	$ 1,814	$ 1,569	$ 1,260	16%	25%
Total AIG Life and Retirement:					
Revenue:					
Premiums	$ 2,428	$ 2,513	$ 2,520	(3)%	%
Policy fees	2,791	2,705	2,710	3	
Net investment income	10,718	9,882	10,768	8	(8)
Other income	9	209		(96)	NM
Operating expenses:					
Policyholder benefits and claims incurred	4,533	4,614	4,276	(2)	8
Interest credited to policyholder account balances	4,362	4,467	4,487	(2)	
Amortization of deferred acquisition costs	812	866	971	(6)	(11)
Other acquisition and insurance expenses	2,079	2,085	2,208		(6)
Operating income	4,160	3,277	4,056	27	(19)
Legal settlements	154			NM	NM
Changes in fair value of fixed maturity securities designated to hedge living benefit liabilities	37			NM	NM
Net realized capital gains (losses)	630	6	(1,251)	NM	NM
Change in benefit reserves and DAC, VOBA and SIA related to net realized capital gains (losses)	(1,201)	(327)	(104)	(267)	(214)
Pre-tax income	$ 3,780	$ 2,956	$ 2,701	28%	9%

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2012 and 2011 Comparison

AIG Life and Retirement Operating Income

Operating income increased in 2012 principally due to our efforts to actively manage spread income. Results benefitted from higher net investment income, lower interest credited, lower reserve charges for death claims and the impact of favorable separate account performance on policyholder benefit expenses and DAC amortization. These items were partially offset by significant proceeds from legal settlements in 2011, higher mortality costs and a charge to increase GIC reserves.

Premiums decreased slightly in 2012 due to lower group benefit premiums partially offset by higher term insurance premiums.

Policy fees increased in 2012 as a result of growth in variable annuity assets under management from higher net flows and separate account performance, driven in large part by higher equity markets.

Net investment income increased in 2012 reflecting higher base yields of 9 basis points due to the reinvestment of significant amounts of cash and short-term investments during 2011, opportunistic investments in structured securities, fair value gains on MLII and other structured securities, a fair value gain of approximately $57 million on the investment in PICC Group, lower impairment charges on investments in leased commercial aircraft and higher returns on alternative investments. The increase in net investment income combined with lower interest credited resulted in improved net investment spreads in 2012 compared to 2011.

Other income decreased due to legal settlement proceeds of $226 million in 2011 to resolve a litigation matter.

Policyholder benefits and claims incurred decreased as lower reserve charges for death claims not submitted to AIG in the normal course of business and the impact of favorable separate account performance more than offset higher mortality costs for individual life insurance.

Interest credited decreased in 2012 due to active crediting rate management actions that included lowering renewal credited rates, maintaining discipline on new business pricing including re-filing products to lower minimum rate guarantees.

Amortization of deferred acquisition costs decreased in 2012 primarily as a result of updated assumptions related to fixed annuity surrender rates and the impact of favorable separate account performance.

Other acquisition and insurance expenses were essentially flat with 2011.

Life Insurance Operating Income

Life Insurance operating income increased in 2012 due to higher net investment income and lower reserves for death claims, principally related to the effect of multi-state unclaimed property examinations, that have not been submitted to AIG in the normal course of business. These items were partially offset by higher mortality costs, DAC amortization and loss recognition reserves related to a legacy block of long-term care insurance.

Premiums decreased slightly in 2012 due to lower group benefit premiums partially offset by higher term insurance premiums.

Policy fees were essentially flat with 2011.

Net investment income increased in 2012, reflecting the reinvestment of significant amounts of cash and short-term investments during 2011, opportunistic investments in structured securities, fair value gains on MLII in 2012 of $76 million, a fair value gain of $28 million on the investment in PICC made in 2012, lower impairment charges on investments in leased commercial aircraft and higher returns on alternative investments.

Policyholder benefits and claims incurred increased in 2012 reflecting higher mortality costs and loss recognition reserves, partially offset by lower charges to increase reserves for death claims as described below:

Mortality costs related to life insurance increased in 2012, although overall mortality results remain within pricing expectations.

Certain long-duration products, including traditional life insurance, accident and health products, such as long-term care insurance and payout annuities, may require increases in reserves if changes in estimates of future investment returns result in projected future losses. Long term care products may also require additional reserves if future expected premium increases are not sufficient to cover future benefit cost increases not provided for in the current reserves. For these long duration traditional products, the assumptions used to calculate benefit liabilities and DAC are "locked in" at policy issuance. These assumptions are based on our estimates of mortality, morbidity, persistency, maintenance expenses, investment returns and for long-term care, future premium increases. If observed changes in actual experience or estimates result in projected future losses under loss recognition testing, DAC is adjusted and additional policyholder benefit liabilities may be recorded through a charge to policyholder benefit expense. In the fourth quarter of 2012, loss recognition reserves of $61 million were recorded for a legacy block of long-term care insurance issued prior to 2002.

During 2012 AIG Life and Retirement resolved multi-state examinations relating to the handling of unclaimed property and the use of the Social Security Death Master File (SSDMF) to identify death claims that have not been submitted to us in the normal course of business. The final settlement of these examinations was announced on October 22, 2012. AIG Life and Retirement is now taking enhanced measures to, among other things, routinely match policyholder records with the SSDMF to determine if its insured parties, annuitants, or retained account holders have died and locate beneficiaries when a claim is payable. Charges related to the resolution of the multi-state examinations and use of the SSDMF were approximately $57 million in 2012 and $202 million in 2011.

Amortization of deferred acquisition costs increased in 2012 as a result of updated assumptions for universal life products and certain blocks of fixed annuities included in the Life Insurance operating segment. The updated assumptions increased amortization by $78 million and primarily reflected the impact of spread compression in the current low interest rate environment.

Other acquisition and insurance expenses decreased in 2012 primarily due to the sharing of group benefit costs related to our strategic partnership with AIG Property Casualty.

Retirement Services Operating Income

Retirement Services operating income increased in 2012 due to improved net investment spreads (higher net investment income and lower interest credited), the impact of favorable separate account performance on DAC amortization and policyholder benefit expenses and lower DAC amortization due to updated assumptions for fixed annuity surrenders. These items were partially offset by significant proceeds from legal settlements in 2011 and an increase in GIC reserves in 2012.

Policy fees increased in 2012 as a result of growth in variable annuity assets under management due to higher net flows and separate account performance driven in large part by higher equity markets.

Net investment income increased in 2012, reflecting higher base yields due to the reinvestment of significant amounts of cash and short-term investments during 2011, opportunistic investments in structured securities, fair value gains on MLII in 2012 of $170 million, a fair value gain of $28 million on the investment in PICC made in 2012, lower impairment charges on investments in leased commercial aircraft and higher returns on alternative investments.

Other income decreased due to the previously discussed legal settlement proceeds of $226 million in 2011 to resolve a litigation matter as discussed above.

Policyholder benefits and claims incurred decreased in 2012 due to the impact of higher separate account returns for certain guaranteed benefit features of variable annuities.

Interest credited to policyholder account balances decreased in 2012 as a result of ongoing actions to actively manage interest crediting rates on new and renewal business including lower renewal credited rates, discipline on new business pricing and re-filing products to reduce minimum rate guarantees. As a result of a comprehensive review of reserves for the GIC portfolio, AIG Life and Retirement recorded an increase to such reserves through interest credited of $110 million for 2012, which partially offset the impact of crediting rate actions.

Amortization of deferred acquisition costs was lower in 2012 as a result of the favorable impact of updated assumptions for lower fixed annuity surrenders and the impact of higher separate account returns described above. For investment-type annuity products, policy acquisition and issuance costs are deferred and amortized, with interest, based on the estimated gross profits expected to be realized over the lives of the contracts. Estimated gross profits

include investment spreads, net realized investment gains and losses, fees, surrender charges, expenses and mortality gains and losses. Emerging actual gross profits are used to true up the amortization of DAC, VOBA and SIA each quarter. In addition, future assumptions are reviewed to determine whether they should be modified. If so, the DAC, VOBA and SIA assets may be recalculated and adjusted to reflect the updated assumptions. AIG Life and Retirement completed its comprehensive annual review of DAC assumptions in the fourth quarter of 2012 and adjusted the assumption for future fixed annuity surrender rates to be more consistent with recent experience that is expected to continue as long as interest rates remain relatively low.

Other acquisition and insurance expenses increased in 2012 due to higher marketing and distribution expenses associated with growth initiatives for variable annuities and group retirement products.

2011 and 2010 Comparison

AIG Life and Retirement Operating Income

Operating income decreased in 2011 due to lower net investment income, higher DAC amortization and higher policyholder benefit expense in its variable annuity business due to separate account performance, and an increase in death claim reserves.

Policy fees were essentially flat from 2010.

Net investment income decreased in 2011 compared to 2010 reflecting lower base yields of 12 basis points as investment purchases in late 2010 and 2011 were made at yields lower than the weighted average yields of the existing base portfolio. Net investment income also decreased due to a $471 million decrease in fair value gains on ML II, $196 million lower call and tender income, $163 million of impairment charges on investments in leased commercial aircraft and a $121 million decrease in private equity and hedge funds income. The lower yields were partially offset by an increase in income from the reinvestment of significant amounts of cash and short term investments during 2011.

Other income increased due to the previously discussed legal settlement proceeds of $226 million in 2011.

Policyholder benefits and claims incurred increased as a result of reserve charges for death claims not submitted to us in the normal course of business and higher reserves for guaranteed death benefits in our variable annuity products as a result of less favorable separate account performance in 2011 as compared to 2010.

Other acquisition and insurance expenses declined due to legal expense accruals and state guaranty fund assessments which were higher in 2010, as well as a reduction in the cost of letters of credit related to reinsurance.

Life Insurance Operating Income

Life Insurance operating income decreased in 2011 due to lower net investment income and an increase in death claim reserves, partially offset by lower DAC amortization due to updating actuarial assumptions in 2010 principally related to mortality and surrender rates.

Policyholder fees declined primarily as a result of updating certain assumptions in 2010 related to universal life and deferred annuity business, which resulted in a $58 million increase in fee income.

Net investment income decreased in 2011 compared to 2010 reflecting lower base yields as investment purchases in late 2010 and 2011 were made at yields lower than the weighted average yields of the existing base portfolio. Net investment income also decreased due to a $149 million decrease in fair value gains on ML II, $126 million lower call and tender income and $50 million of impairment charges on investments in leased commercial aircraft. The lower yields were partially offset by an increase in income from the reinvestment of significant amounts of cash and short term investments during 2011.

Policyholder benefits and claims incurred increased in 2011 reflecting an increase in reserves for death claims. AIG Life and Retirement recorded an increase of approximately $202 million in the estimated reserves for incurred but not reported death claims in 2011 in conjunction with the use of the Social Security Death Master File (SSDMF) to identify potential claims not yet filed with its life insurance companies.

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Amortization of deferred acquisition costs was lower in 2011 as a result of updating mortality and surrender rate assumptions on universal life and deferred annuity business in 2010, which resulted in an $86 million increase in DAC amortization in 2010.

Other acquisition and insurance expenses were essentially flat from 2010.

Retirement Services Operating Income

Retirement services operating income decreased in 2011 due to lower net investment income, higher DAC amortization and higher policyholder benefit expense in its variable annuity business from equity market conditions, partially offset by higher income from legal settlements.

Net investment income decreased in 2011 compared to 2010 reflecting lower base yields as investment purchases in late 2010 and 2011. Net investment income also decreased due to a $322 million decrease in fair value gains on ML II, $70 million lower call and tender income, $113 million of impairment charges on investments in leased commercial aircraft and a $127 million decrease in private equity and hedge fund income. The lower yields were partially offset by an increase in income from the reinvestment of significant amounts of cash and short term investments during 2011.

Other income increased due to the previously discussed legal settlement proceeds of $226 million in 2011 to resolve a litigation matter as discussed above.

Policyholder benefits and claims incurred increased in 2011 due to the impact of lower separate account performance in 2011 compared to 2010.

Other acquisition and insurance expenses declined due to legal expenses and state guaranty fund assessments which were higher in 2010.

Legal Settlements

In December of 2012, we recorded litigation settlement income from settlements with three financial institutions who participated in the creation, offering and sale of RMBS as to which AIG and its subsidiaries suffered losses either directly on their own account or in connection with their participation in AIG's securities lending program.

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

AIG Life and Retirement has a dynamic hedging program designed to manage economic risk exposure associated with changes in equity markets, interest rates and volatilities related to embedded derivative liabilities contained in guaranteed benefit features of variable annuities. We substantially hedge our exposure to equity markets. However, due to regulatory capital considerations, a portion of our interest rate exposure is unhedged. In 2012, we began purchasing U.S. Treasury bonds as a capital-efficient strategy to reduce our interest rate risk exposure over time. As a result of decreases in interest rates on U.S. Treasury securities during 2012, the fair value of the U.S. Treasury securities used for hedging, net of financing costs, increased by $37 million. This was partially offset by embedded derivative losses related to the decline in interest rates, which are reported in net realized gains (losses).

Net Realized Capital Gains (Losses)

Net realized capital gains increased by $624 million in 2012 as compared to 2011 due to higher gains from the sale of investments in conjunction with a program to utilize capital loss tax carryforwards and lower other-than-temporary impairments. The higher gains were partially offset by $557 million higher fair value losses on variable annuity embedded derivatives, which were primarily due to declining credit spreads and declines in long-term interest rates.

AIG Life and Retirement reported net realized capital gains in 2011 compared to net realized capital losses in 2010. This was mainly due to a $981 million decline in other-than-temporary impairments, a decline in fair value losses on derivatives primarily used to hedge the effect of interest rate and foreign exchange movements on GIC reserves, and declines in the allowance for mortgage loans. These improvements were partially offset by a $465 million increase in fair value losses on variable annuity embedded derivatives which were primarily driven by declines in long-term interest rates.

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

In conjunction with a program to utilize capital loss tax carryforwards, we sold approximately $19.5 billion of investments in 2012. These and other sales with subsequent reinvestment at lower yields triggered loss recognition on certain long-term payout annuity contracts in the amount of $1.2 billion, which effectively transferred shadow loss recognition from unrealized (AOCI) to actual loss recognition (benefit expense) and, to a much lesser extent, transferred shadow DAC (AOCI) to DAC amortization expense in 2012. Assumptions related to investment yields, mortality experience and expenses will be reviewed periodically and updated as appropriate, which may result in additional loss recognition reserves. In addition, due to the reinvestment of the assets at lower yields, earnings related to this payout annuity block of business are expected to decline beginning in 2013.

Premiums

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

The following table presents a reconciliation of premiums, deposits and other considerations to premiums:

Years Ended December 31, ***(in millions)***	**2012**	**2011**	**2010**
Premiums, deposits and other considerations	**$ 20,994**	$ 24,392	$ 19,505
Deposits	**(17,934)**	(21,338)	(16,405)
Other	**(632)**	(541)	(580)
Premiums	**$ 2,428**	$ 2,513	$ 2,520

Sales and Deposits

The following tables summarize AIG Life and Retirement premiums, deposits and other considerations by product*:

Years Ended December 31, ***(in millions)***	**2012**	**2011**	**2010**	**Percentage Change** **2012 vs. 2011**	 **2011 vs. 2010**
Premiums, deposits and other considerations					
Individual fixed annuity deposits	**$ 1,495**	$ 6,606	$ 4,410	(77)%	50%
Group retirement product deposits	**7,028**	7,312	6,309	(4)	16
Life insurance	**5,129**	5,267	5,529	(3)	(5)
Individual variable annuity deposits	**4,561**	3,212	2,072	42	55
Retail mutual funds	**2,723**	1,925	1,101	41	75
Individual annuities runoff	**58**	70	84	(17)	(17)
Total premiums, deposits and other considerations	**$ 20,994**	$ 24,392	$ 19,505	(14)%	25%
Life Insurance Sales					
Retail Independent	**$ 138**	$ 144	$ 123	(4)%	17%
Retail Affiliated (Career and AIG Direct)	**110**	109	98	1	11
Total Retail	**248**	253	221	(2)	14

Institutional	Independent		26		25		32	4	(22)
Total life insurance sales		**$**	**274**	$	278	$	253	(1)%	10%

* Life insurance sales include periodic premiums from new business expected to be collected over a one-year period and 10 percent of single premiums and unscheduled deposits from new and existing policyholders. Annuity sales represent deposits from new and existing customers.

Total premiums, deposits and other considerations decreased in 2012 as substantial decreases in individual fixed annuities were only partially offset by significant increases in individual variable annuities and retail mutual funds.

2012 and 2011 Comparison

Individual fixed annuity deposits declined due to the low interest rate environment as consumers are reluctant to purchase these products at the relatively low crediting rates currently offered. Group retirement product deposits (which include deposits into mutual funds and fixed options within variable annuities sold in group retirement markets) decreased modestly due to slightly lower levels of individual rollover deposits and periodic deposits in 2012, partially offset by higher mutual fund deposits. The low interest rate environment has affected group retirement deposits, resulting in lower levels of deposits into fixed options. Individual variable annuity deposits increased due to innovative product enhancements and expanded distribution as well as a more favorable competitive environment. Premiums from life insurance products increased in 2012, but were more than offset by declines in deferred annuities sold through life insurance distribution channels. Retail mutual fund sales growth was principally driven by SunAmerica Asset Management Corp.'s Focused Dividend Strategy product offering which continues to be a top long-term performer within its respective peer group.

AIG Life and Retirement's total life sales decreased 1 percent during 2012 compared to 2011. Overall retail universal life sales decreased 1 percent with sales of indexed products growing while sales of universal life products sensitive to low interest rates declined. Retail term insurance sales increased 1 percent in 2012 compared to 2011 because we continued our disciplined focus related to new business pricing and underwriting. Institutional life sales increased 4 percent in 2012 compared to 2011 from growth in single premium private placement universal life deposits.

2011 and 2010 Comparison

Group retirement deposits increased primarily due to higher levels of individual rollover deposits in 2011. Individual fixed annuity deposits increased as certain bank distributors negotiated a lower commission in exchange for a higher rate offered to policyholders which made our individual fixed annuity products more attractive. However, fixed annuity deposits declined in the latter part of 2011 from the first six months of 2011 due to significant declines in interest rates. Variable annuity sales increased due to reinstatements of relationships at a number of key broker-dealers, and increased wholesaler productivity. Deposits from life insurance products increased in 2011, but were more than offset by declines in deferred annuities sold through life insurance distribution channels and a large private placement variable annuity sale in 2010. Retail mutual fund annual sales growth was driven by SunAmerica Asset Management Corp.'s Specialty Series product offerings (Alternative Strategies and Global Trends) and the Focused Dividend Strategy Portfolio.

AIG Life and Retirement grew new sales of mortality-based life insurance products during 2011 by strengthening the core retail independent distribution channel and continuing to focus on career agent and direct-to-consumer distribution. Retail life sales increased 17 percent during 2011 as we continued to re-engage independent distribution channels. Affiliated distribution channels grew 11 percent in 2011 as a result of an enhanced product suite appealing

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to middle market consumers. AIG Direct, our direct-to-consumer platform, has proven highly effective for the distribution of term life and A&H products. The decline in institutional sales during 2011 reflected several large variable universal life sales during 2010.

Retirement Services Net Flows

The following table presents the account value rollforward for Retirement Services:

Years Ended December 31, *(in millions)*	2012	2011	2010
Group retirement products			
Balance, beginning of year	$ 69,925	$ 68,365	$ 63,419
Deposits annuities	5,083	5,652	4,937
Deposits mutual funds	1,945	1,660	1,372
Total deposits	7,028	7,312	6,309
Surrenders and other withdrawals	(6,325)	(5,853)	(6,647)
Death benefits	(401)	(371)	(317)
Net inflows (outflows)	302	1,088	(655)
Change in fair value of underlying investments, interest credited, net of fees	6,087	457	5,601
Effect of unrealized gains (losses) (shadow loss)	178	15	
Balance, end of year	$ 76,492	$ 69,925	$ 68,365
Individual fixed annuities			
Balance, beginning of year	$ 52,276	$ 48,489	$ 47,202
Deposits	1,495	6,606	4,410
Surrenders and other withdrawals	(3,465)	(3,456)	(3,520)
Death benefits	(1,632)	(1,570)	(1,479)
Net inflows (outflows)	(3,602)	1,580	(589)
Change in fair value of underlying investments, interest credited, net of fees	1,719	1,828	1,876
Other	479		
Effect of unrealized gains (losses) (shadow loss)	(141)	379	
Balance, end of year	$ 50,731	$ 52,276	$ 48,489
Individual variable annuities			
Balance, beginning of year	$ 24,896	$ 25,581	$ 24,637
Deposits	4,561	3,212	2,072
Surrenders and other withdrawals	(2,727)	(2,982)	(2,725)
Death benefits	(447)	(452)	(437)
Net inflows (outflows)	1,387	(222)	(1,090)
Change in fair value of underlying investments, interest credited, net of fees	2,830	(463)	2,034

Balance, end of year	$ 29,113	$ 24,896	$ 25,581
Retail mutual funds			
Balance, beginning of year	$ 6,221	$ 5,975	$ 5,879
Deposits	2,723	1,925	1,101
Redemptions	(1,705)	(1,447)	(1,252)
Net inflows (outflows)	1,018	478	(151)
Change in fair value of underlying investments, interest credited, net of fees	(69)	(232)	247
Balance, end of year	$ 7,170	$ 6,221	$ 5,975
Total Retirement Services			
Balance, beginning of year	$ 153,318	$ 148,410	$ 141,137
Deposits	15,807	19,055	13,892
Surrenders, redemptions and other withdrawals	(14,222)	(13,738)	(14,144)
Death benefits	(2,480)	(2,393)	(2,233)
Net inflows (outflows)	(895)	2,924	(2,485)
Change in fair value of underlying investments, interest credited, net of fees	10,567	1,590	9,758
Other	479		
Effect of unrealized gains (losses) (shadow loss)	37	394	
Balance, end of year, excluding runoff	163,506	153,318	148,410
Individual annuities runoff	4,151	4,299	4,430
GIC runoff	6,099	6,706	8,486
Balance, end of year	$ 173,756	$ 164,323	$ 161,326
General and separate account reserves and mutual funds			
General account reserve	$ 102,814	$ 102,580	$ 97,515
Separate account reserve	51,970	46,006	48,804
Total general and separate account reserves	154,784	148,586	146,319
Group retirement mutual funds	11,802	9,516	9,032
Retail mutual funds	7,170	6,221	5,975
Total reserves and mutual funds	$ 173,756	$ 164,323	$ 161,326

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2012 and 2011 Comparison

Overall, net flows were negative in 2012, primarily due to lower fixed annuity deposits resulting from the low interest rate environment. Net flows improved in 2012 for individual variable annuities due to both the increase in deposits and favorable surrender experience. Net flows improved in 2012 for retail mutual funds due to increased deposits.

2011 and 2010 Comparison

Net flows improved in 2011 due to both the significant increase in deposits and favorable surrender experience in group retirement and individual fixed annuities. However, individual fixed annuities net flows declined in the second half of the year due to lower deposits resulting from the low interest rate environment.

Surrender rates for individual fixed annuities also decreased in 2011 due to the low interest rate environment and the relative competitiveness of interest credited rates on the existing block of fixed annuities versus interest rates on alternative investment options available in the marketplace. AIG Life and Retirement returned to a more normal level of group surrender activity that no longer reflects the negative AIG publicity associated with the events of 2008 and 2009. Individual variable annuities net flows improved from 2010 levels due primarily to higher deposits throughout 2011 and turned positive in the fourth quarter of 2011.

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

At December 31, (in millions)	2012 Group Retirement Products*	2012 Individual Fixed Annuities	2012 Individual Variable Annuities	2011 Group Retirement Products*	2011 Individual Fixed Annuities	2011 Individual Variable Annuities
No surrender charge	**$ 55,892**	**$ 21,528**	**$ 11,548**	$ 53,100	$ 18,179	$ 10,061
0% - 2%	**1,241**	**2,970**	**4,231**	1,186	2,922	4,317
Greater than 2% - 4%	**1,400**	**2,867**	**2,125**	1,248	4,719	2,068
Greater than 4%	**4,879**	**19,609**	**10,318**	4,060	23,372	7,764
Non-surrenderable	**1,278**	**3,757**	**891**	815	3,084	686
Total reserves	**$ 64,690**	**$ 50,731**	**$ 29,113**	$ 60,409	$ 52,276	$ 24,896
Surrender rates	**8.6%**	**6.8%**	**10.3%**	8.4%	6.8%	11.9%

* Excludes mutual funds of $11.8 billion and $9.5 billion at December 31, 2012 and 2011, respectively.

Low Interest Rate Environment

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

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AIG Life and Retirement is proactively addressing the impact of sustained low interest rates. During 2012, a number of actions were taken on both the asset and liability sides of our balance sheet:

Opportunistic investments in structured securities and re-deployment of cash in 2011 to increase yields

Continued disciplined approach to new business pricing

Actively managing renewal credited rates

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

Re-filed certain products to continue lowering minimum rate guarantees

As a result of these actions, we estimate that the effect of interest rates remaining at or near current levels through the end of 2013 on pre-tax operating income would not be material, and would be modestly more significant with respect to 2014 results.

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

Disciplined New Business Pricing: New fixed annuity sales have declined in 2012 relative to 2011, due to the relatively low crediting rates offered as a result of our disciplined approach to new business. However, even in the current interest rate environment, we continue to pursue new sales of life and annuity products at targeted net investment spreads. New sales of fixed annuity products generally have minimum interest rate guarantees of 1 percent. Universal life insurance interest rate guarantees are generally 2 to 3 percent on new non-indexed products and 1 percent on new indexed products, and are designed to be sufficient to meet targeted net investment spreads. If the low interest rate environment continues, we expect our fixed annuities sales (including deposits into fixed options within variable annuities sold in group retirement markets) to remain weak into 2013.

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

As indicated in the table below, approximately 63 percent of our annuity and universal life account values are at their minimum crediting rates as of December 31, 2012, an increase from 45 percent at December 31, 2011. These

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products have minimum guaranteed interest rates as of December 31, 2012 ranging from 1.0 percent to 5.5 percent, with the higher rates representing guarantees on older products.

December 31, 2012 Contractual Minimum Guaranteed Interest Rate Account Values		Current Crediting Rates		
(in millions)	At Contractual Minimum Guarantee	1-50 Basis Points Above Minimum Guarantee	More than 50 Basis Points Above Minimum Guarantee	Total
Universal life insurance				
1%	$ 24	$	$ 9	$ 33
> 1% - 2%			232	232
> 2% - 3%	93	368	1,445	1,906
> 3% - 4%	2,143	209	1,566	3,918
> 4% - 5%	4,377	197	12	4,586
> 5% - 5.5%	321	3	2	326
Subtotal	$ 6,958	$ 777	$ 3,266	$ 11,001
Fixed annuities				
1%	$ 1,317	$ 2,826	$ 6,079	$ 10,222
> 1% - 2%	6,146	8,146	8,857	23,149
> 2% - 3%	30,631	1,635	5,251	37,517
> 3% - 4%	13,262	962	417	14,641
> 4% - 5%	8,138		7	8,145
> 5% - 5.5%	238		5	243
Subtotal	$ 59,732	$ 13,569	$ 20,616	$ 93,917
Total	$ 66,690	$ 14,346	$ 23,882	$ 104,918
Percentage of total	63%	14%	23%	100%

Effective Product Management: AIG Life and Retirement has a dynamic product management process designed to ensure that new business product offerings appropriately reflect the current low interest rate environment. To the extent that we cannot achieve targeted net investment spreads on new business, products are re-priced or discontinued. Additionally, current products with higher minimum rate guarantees have been re-filed with lower rates as permitted under state insurance product regulations.

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Other Operations

Other Operations Results

The following table presents AIG's Other operations results:

Years Ended December 31, (in millions)	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Mortgage Guaranty	$ 9	$ (97)	$ 353	NM%	NM%
Global Capital Markets	557	(11)	210	NM	NM
Direct Investment book	1,215	604	1,421	101	(57)
Retained interests:					
Change in fair value of AIA securities, including realized gain in 2012	2,069	1,289	(638)	61	NM
Change in fair value of ML III	2,888	(646)	1,792	NM	NM
Change in the fair value of the MetLife securities prior to their sale		(157)	665	NM	NM
Corporate & Other:					
Interest expense on FRBNY Credit Facility*		(72)	(636)	NM	89
Other interest expense	(1,597)	(1,613)	(1,856)	1	13
Corporate expenses, net	(900)	(1,095)	(1,233)	18	11
Real estate and other non-core businesses	(121)	24	(658)	NM	NM
Total Corporate & Other operating income	(2,618)	(2,756)	(4,383)	5	37
Consolidation and eliminations	4		89	NM	NM
Total Other operations operating income (loss)	4,124	(1,774)	(491)	NM	(261)
Legal reserves	(754)	(20)	(3)	NM	NM
Legal settlements	39			NM	NM
Deferred gain on FRBNY credit facility		296		NM	NM
Amortization of prepaid commitment fee asset			(3,471)	NM	NM
Gain (loss) on extinguishment of debt	(9)	(3,143)	(104)	100	NM
Net realized capital gains	501	12	908	NM	(99)
Net gain (loss) on sale of divested businesses	(2)	(74)	18,897	97	NM
Divested businesses			1,875	NM	NM
Total Other operations pre-tax income (loss)	$ 3,899	$ (4,703)	$ 17,611	NM%	NM%

* Includes interest expense of $2 million and $75 million for 2011 and 2010, respectively, allocated to discontinued operations in consolidation.

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In December of 2012, we recorded litigation settlement income from settlements with three financial institutions who participated in the creation, offering and sale of RMBS as to which AIG and its subsidiaries suffered losses either directly on their own account or in connection with their participation in AIG's securities lending program.

Mortgage Guaranty

The following table presents pre-tax income for Mortgage Guaranty:

Years Ended December 31, *(in millions)*	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Underwriting results:					
Net premiums written	$ **858**	$ 801	$ 756	7%	6%
(Increase) decrease in unearned premiums	**(143)**	(9)	219	NM	NM
Net premiums earned	**715**	792	975	(10)	(19)
Claims and claims adjustment expenses incurred	**659**	834	500	(21)	67
Underwriting expenses	**193**	187	271	3	(31)
Underwriting profit (loss)	**(137)**	(229)	204	40	NM
Net investment income	**146**	132	149	11	(11)
Operating income (loss)	**9**	(97)	353	NM	NM
Net realized capital gains	**6**	20	44	(70)	(55)
Pre-tax income (loss)	$ **15**	$ (77)	$ 397	NM%	NM%

2012 and 2011 Comparison

Mortgage Guaranty recorded operating income in 2012 compared to an operating loss in 2011 primarily due to:

- a decrease in claims and claims adjustment expenses of $175 million. This reflects decreases in first and second-lien businesses of $95 million and $110 million, respectively, which were partially offset by an increase in international claims and claims adjustment expenses of $34 million. Claims and claims adjustment expenses in 2012 included favorable prior year loss development of $78 million, which consists of $45 million in second liens, $17 million in student loans and $33 million in the international business partially offset by unfavorable development in first liens of $17 million. This favorable prior year development was offset by current accident year losses attributable to business written in 2008 and prior;

- the $95 million decrease in first-lien claims and claims adjustment expenses reflected 20 percent lower levels of newly reported delinquencies, an improvement in the cure rate and lower unfavorable loss development of $17 million in 2012 compared to $76 million of unfavorable development in 2011. The unfavorable development of $17 million in 2012, included $117 million of favorable development arising from the claims requests sent to lenders mentioned above, offset by $134 million of unfavorable development on delinquencies for which claim requests were not made;

- the $110 million decline in second-lien business claims and claims adjustment expenses. This reflected a decrease in claims and claims adjustment expenses paid as more business reached the respective stop loss limits; and

the increased claims and claims adjustment expenses in the international business. This reflected a reduction in claim reserves in 2011 due to a settlement of certain delinquencies with a major European lender that resulted in a $43 million benefit.

These items were partially offset by:

a decline in first-lien earned premiums of $19 million reflecting higher premium refunds due to the rescissions arising from the claims requests sent to lenders during the fourth quarter of 2011 and continuing throughout 2012, as discussed in Outlook herein, in addition to the declining persistency on the 2008 and prior policy years;

a decline in earned premiums on second-lien and international businesses, both of which were placed into run-off during 2008, of $41 million and $24 million respectively; and

a $10 million increase in underwriting expenses driven primarily by an increase in underwriting, sales and product initiatives, all of which supported the increase in new insurance written for the year.

New insurance written, which represents the original principal balance of the insured mortgages, was approximately $37 billion and $19 billion in 2012 and 2011, respectively. The increase in new insurance written is the result of the market acceptance by lenders of UGC's risk-based pricing model and withdrawal of certain competitors from the market during 2011. See Outlook Other Operations Mortgage Guaranty for further discussion.

Risk-in-Force

The following table presents risk-in-force and delinquency ratio information for Mortgage Guaranty domestic business:

At December 31, ***(dollars in billions)***		**2012**		**2011**
Domestic first-lien:				
Risk in force	**$**	**29.0**	$	25.6
60+ day delinquency ratio on primary loans[(a)]		***8.9%***		13.9%
Domestic second-lien:				
Risk in force[(b)]	**$**	**1.3**	$	1.5

(a) Based on number of policies.

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

2011 and 2010 Comparison

Mortgage Guaranty recorded an operating loss in 2011 compared to operating income in 2010, primarily due to:

an increase in claims and claims adjustment expenses of $334 million, primarily in first-lien business. This reflected increased overturns of denied and rescinded claims and unfavorable first-lien loss development of $76 million in 2011, compared to favorable loss development of $385 million in 2010. These factors were partially offset by lower levels of newly reported delinquencies in the first-lien, second-lien and international products, and a reduction in reserves due to an agreement to resolve certain delinquencies with a major European lender that resulted in a $43 million benefit;

declines in earned premiums from the second-lien, private student loan and international businesses, which were placed into runoff during 2008, partially offset by an increase in earned premiums from first-lien business; and

the accrual of $22 million to pay for previously rescinded losses, certain legal fees and interest in connection with an adverse judgment. Mortgage Guaranty has appealed the court's decision.

Partially offsetting these declines was a reduction in underwriting expenses compared to 2010 reflecting a $94 million accrual of estimated remedy losses in 2010. Remedy losses represent the indemnification for losses incurred by lenders arising from obligations contractually

assumed by Mortgage Guaranty as a result of underwriting services provided to lenders during times of high loan origination activity. Mortgage Guaranty believes it has adequately accrued for these losses at December 31, 2011. Pre-tax income for 2010 also includes gains of approximately $150 million from legal settlements and reinsurance commutations.

Global Capital Markets Operations

2012 and 2011 Comparison

GCM reported operating income in 2012 compared to an operating loss in 2011 primarily due to improvement in unrealized market valuations related to the super senior credit default swap (CDS) portfolio, a decrease in operating expenses and lower costs related to the wind-down of AIGFP's businesses and portfolios. For 2012 and 2011,

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unrealized market valuation gains of $617 million and $339 million, respectively, were recognized. The improvement resulted primarily from CDS transactions written on multi sector CDOs driven by amortization and price movements within the CDS portfolio. For 2012, the remaining portfolio of AIGFP continued to be wound down and was managed consistent with AIG's risk management objectives. The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011.

2011 and 2010 Comparison

GCM reported an operating loss in 2011 compared to operating income in 2010 primarily due to a decrease in unrealized market valuation gains related to the super senior CDS portfolio and losses in 2011 compared to gains in 2010 on the CDS contracts referencing single-name exposures written on corporate, index and asset-backed credits, which are not included in the super senior CDS portfolio. These items were partially offset by improvement in net credit valuation adjustments on derivative assets and liabilities. For 2011 and 2010, unrealized market valuation gains of $339 million and $598 million, respectively, were recognized on the super senior CDS portfolio. The decrease resulted primarily from CDS transactions written on multi-sector CDOs as a result of price declines of the underlying assets. For 2011, an unrealized market valuation loss of $23 million was recognized on CDS contracts referencing single-name exposures compared to a gain of $149 million in 2010 due to a decline in market conditions. For 2011 and 2010, net credit valuation adjustment losses of $53 million and $200 million, respectively, were recognized. The improvement resulted primarily from the narrowing of corporate spreads.

Direct Investment Book Results

2012 and 2011 Comparison

The DIB's operating income increased in 2012 compared to 2011 primarily due to improvement in net credit valuation adjustments on the DIB assets and liabilities for which the fair value option was elected and gains realized from unwinding certain transactions. For 2012 and 2011, net credit valuation adjustment gains of $789 million and $380 million, respectively, were recognized. The improvement resulted primarily from gains on assets due to the tightening of counterparty credit spreads, partially offset by losses on liabilities due to the tightening of AIG's credit spreads.

2011 and 2010 Comparison

The DIB's operating income decreased in 2011 compared to 2010 primarily due to lower net gains in credit valuation adjustments on non-derivative assets and liabilities accounted for under the fair value option and lower interest income due to approximately $4.9 billion in sales of investments during the fourth quarter of 2010 and the first quarter of 2011 to increase liquidity.

The following table presents credit valuation adjustment gains (losses) for the DIB (excluding intercompany transactions):

Years Ended December 31, *(in millions)*	**2012**	**2011**	**2010**
Counterparty Credit Valuation Adjustment on Assets:			
Bond trading securities	**$ 1,401**	$ (71)	$ 1,678
Loans and other assets	**29**	31	40
Increase (decrease) in assets	**$ 1,430**	$ (40)	$ 1,718
AIG's Own Credit Valuation Adjustment on Liabilities:			
Notes and bonds payable	**$ (235)**	$ 141	$ (251)
Hybrid financial instrument liabilities	**(291)**	147	(311)
Guaranteed Investment Agreements	**(81)**	112	(173)
Other liabilities	**(34)**	20	(44)
(Increase) decrease in liabilities	**$ (641)**	$ 420	$ (779)

Net increase to operating income	**$**	**789**	$	380	$	939

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Retained Interests

Change in Fair Value of AIA Securities Prior to Their Sale

We sold our remaining 33 percent interest in AIA ordinary shares for proceeds of $14.5 billion and a net gain of $2.1 billion through three sale transactions on March 7, September 11 and December 20, 2012.

We recognized a $1.3 billion gain in 2011, representing a 12 percent increase in the value of AIG's then 33 percent interest in AIA, which is recorded in Other invested assets and accounted for under the fair value option. In 2010, we recognized a $638 million loss on our interest in AIA during the approximate two-month holding period following the initial public offering in late October 2010.

Change in Fair Value of ML III Prior to Liquidation

The gains attributable to AIG's interest in ML III for 2012 were based in part on the completion of the final auction of ML III assets by the FRBNY, in the third quarter of 2012.

The loss attributable to AIG's interest in ML III for 2011 was due to significant spread widening and reduced interest rates.

The gain on ML III for 2010 was attributable to the shortening of its weighted average life. Additionally, fair value for 2010 was positively affected by a decrease in projected credit losses in the underlying collateral securities.

Change in the Fair Value of the MetLife Securities Prior to Their Sale

We recognized a loss in 2011, representing the decline in the securities' value, due to market conditions, from December 31, 2010 through the date of their sale in the first quarter of 2011.

Corporate & Other

Corporate & Other reported lower operating losses in 2012 compared to 2011 primarily due to the effects of the following:

- reduction in expense of $211 million in 2012 resulting from settlements of the liability for the Department of the Treasury's underwriting fees for the sale of AIG Common Stock at amounts lower than had been estimated at the time the accrual was established, and AIG purchased a significant amount of shares for which no payment to the underwriters was required; and

- a decline in interest expense as a result of the repayment of the FRBNY Credit Facility and the exchange of outstanding junior subordinated debentures for senior unsecured notes in 2011.

Real estate and other non-core businesses declined due to lower gains on real estate dispositions and higher equity losses on real estate investments in 2012 compared to 2011.

Corporate & Other reported lower operating losses in 2011 compared to 2010. This was primarily due to:

- a decline in interest expense as a result of the repayment of the FRBNY Credit Facility; and

- improvement in real estate and other non-core businesses due to significantly lower levels of real estate investment impairment charges in 2011 compared to 2010.

Divested Businesses

Divested businesses include the operating results of divested businesses that did not qualify for discontinued operations accounting through the date of their sale. The Divested businesses results for 2010 primarily represent the historical results of AIA, which was deconsolidated in November 2010 in conjunction with its initial public offering.

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Discontinued Operations

Income (loss) from Discontinued Operations is comprised of the following:

Years Ended December 31, *(in millions)*	2012	2011	2010
Foreign life insurance businesses	$	$ 1,170	$ (1,602)
AGF			(145)
ILFC	**304**	(1,017)	(581)
Net gain (loss) on sale	**(6,733)**	2,338	5,389
Consolidation adjustments		(1)	(356)
Interest allocation		(2)	(75)
Income (loss) from discontinued operations	**(6,429)**	2,488	2,630
Income tax expense (benefit)	**(2,377)**	698	3,599
Income (loss) from discontinued operations, net of tax	**$ (4,052)**	$ 1,790	$ (969)

Significant items affecting the comparison of results from discontinued operations included the following:

a pre-tax loss of $6.7 billion ($4.4 billion after tax) on the announced sale of ILFC in 2012;

a gain on the sale of AIG Star and AIG Edison in 2011, a gain on the sale of ALICO in 2010, a loss on the sale of AGF in 2010 and a loss recognized in 2010 related to the sale of Nan Shan;

impairments of goodwill in 2010 of $4.6 billion related to ALICO, AIG Star and AIG Edison.

tax effects of the above transactions, notably the impact of non-deductible goodwill impairment and the change in investment in subsidiaries, which was principally related to changes in the estimated U.S. tax liability with respect to the planned sales.

See Note 4 to the Consolidated Financial Statements for further discussion of discontinued operations.

Consolidated Comprehensive Income (Loss)

The following table presents AIG's consolidated comprehensive income (loss):

Years Ended December 31, *(in millions)*	2012	2011	2010	Percentage Change 2012 vs. 2011	Percentage Change 2011 vs. 2010
Net income	**$ 3,700**	$ 21,330	$ 12,285	(83)%	74%

Change in unrealized appreciation of investments	**10,710**	5,518	9,910	94	(44)
Change in deferred acquisition costs adjustment and other	**(889)**	(630)	(657)	(41)	4
Change in future policy benefits	**(517)**	(2,302)		78	NM
Change in foreign currency translation adjustments	**(33)**	(97)	654	66	NM
Change in net derivative gains arising from cash flow hedging activities	**33**	51	105	(35)	(51)
Change in retirement plan liabilities adjustment	**(319)**	(365)	9	13	NM
Change attributable to divestitures and deconsolidations		(5,041)	(4,872)	NM	(3)
Deferred tax asset (liability)	**(2,889)**	262	(2,186)	NM	NM
Other comprehensive income (loss)	**6,096**	(2,604)	2,963	NM	NM
Comprehensive income	**9,796**	18,726	15,248	(48)	23
Total comprehensive income attributable to noncontrolling interests	**265**	587	2,408	(55)	(76)
Comprehensive income attributable to AIG	**$ 9,531**	$ 18,139	$ 12,840	(47)%	41%

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2012 and 2011 Comparison

Change in Unrealized Appreciation of Investments

The increase in 2012 was primarily attributable to appreciation in bonds available for sale due to lower interest rates and narrowing spreads for investment grade and high-yield securities. The ten year U.S. Treasury rate started the year at 1.88 percent, decreased to a historic low of 1.39 percent in the middle of the year, and ended the year at 1.76 percent. High yield and investment grade spreads were down approximately 200 basis points and 100 basis points, respectively, during the year, with the narrowing spreads being the major contributor to unrealized appreciation in bonds available for sale, which was almost double the amount recorded in 2011. Corporate bonds and structured securities were major beneficiaries from this continued low rate environment as prices on these assets increased significantly during the year. Non-agency securities provided the majority of the structured securities improvement as high yield securities generally benefited from the significant narrowing of spreads during the year. The significant majority of the unrealized appreciation occurred during the first three quarters of the year, as the fourth quarter experienced less rate and spread volatility.

During 2011, the insurance operations portfolio experienced appreciation in bonds available for sale due to lower rates, which more than offset widening spreads. The ten year U.S. Treasury rate started the year at 3.30 percent, falling 188 basis points to end the year at 1.88 percent. Municipal bond rates also decreased, resulting in unrealized appreciation in both the U.S. Government securities and municipal bond portfolio. The drop in U.S. Treasury rates more than offset the widening of spreads on Investment grade securities, resulting in improved pricing and corresponding unrealized appreciation in the corporate bond portfolio during the year.

The reclassification adjustments included in net income on unrealized appreciation of investments increased by $1.0 billion in 2012 compared to 2011 as a result of realized gains and losses recognized on sales of securities classified as available for sale.

See Investments Investment Highlights Securities available for sale herein for a table on the gross unrealized gains (losses) of AIG's available for sale securities by type of security.

Change in Deferred Acquisition Costs Adjustment and Other

The change in DAC in 2012 compared to 2011 is primarily the result of increases in the unrealized appreciation of investments supporting interest-sensitive products. DAC for investment-oriented products is adjusted for changes in estimated gross profits that result from changes in the net unrealized gains or losses on fixed maturity and equity securities available for sale. Because fixed maturity and equity securities available for sale are carried at aggregate fair value, an adjustment is made to DAC equal to the change in DAC amortization that would have been recorded if such securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. These adjustments, net of tax, are credited or charged directly to Accumulated other comprehensive income (loss).

Change in Future Policy Benefits

We periodically evaluate the assumptions used to establish deferred acquisition costs and future policy benefits. These assumptions may be adjusted based on actual experience and judgment. Key assumptions include mortality, morbidity, persistency, maintenance expenses and investment returns.

Primarily as a result of the increase in unrealized appreciation of investments during 2012 and 2011, we recorded additional future policy benefits through Other comprehensive income. This change in future policy benefits assumes that the securities underlying certain traditional long-duration products are sold at their stated aggregate fair value and reinvested at current yields. This increase in future policy benefits in other comprehensive income was partially offset by loss reserve recognition in net income resulting from sales of securities in unrealized gain positions.

Change in Foreign Currency Translation Adjustment

The change in foreign currency translation adjustment was a net loss in 2012 due to the strengthening of the U.S. dollar against the Euro and Japanese Yen slightly offset by the weakening of the U.S. dollar against British pound.

Change in Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities

The decline primarily reflects the gradual run-off of the cash flow hedge portfolio as well as the de-designations resulting from ILFC, partially offset by a decline in the interest rate environment.

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Change in Retirement Plan Liabilities Adjustment

The decrease in the amount of change in 2012 compared to the 2011 was primarily due to the overall decreases in discount rates resulting in a loss of approximately $636 million and $677 million in 2012 and 2011, respectively. Partially offsetting the 2012 loss was a gain from investment returns of $213 million. Adding to the loss in 2011 was a loss from investment returns of $146 million.

See Note 22 to the Consolidated Financial Statements for further discussion.

Change Attributable to Divestitures and Deconsolidations

The change attributable to divestitures and deconsolidations in 2011 primarily reflects the derecognition of all items in Accumulated other comprehensive income (loss) at the time of sale for AIG Star, AIG Edison and Nan Shan.

Deferred Taxes on Other Comprehensive Income

In 2012, the effective tax rate on pre-tax Other Comprehensive Income was 32.2 percent. The effective tax rate differed from the statutory 35 percent rate primarily due to a decrease in the deferred tax asset valuation allowance and the effect of foreign operations.

For the year ended December 31, 2011, the effective tax rate on pre-tax Other Comprehensive Loss was 9.1 percent. The effective tax rate differs from the statutory 35 percent rate primarily due to the effects of the Nan Shan disposition.

2011 and 2010 Comparison

Change in Unrealized Appreciation of Investments

As discussed above, the 2011 increase in unrealized appreciation of investments was due to the result of appreciation in bonds available for sale due to lower rates, which more than offset widening spreads.

The $9.9 billion increase in 2010 primarily reflects an appreciation in bonds available for sale due to lower U.S. Treasury rates and slightly narrowed spreads. The structured securities portfolio accounted for more than half of the positive change in 2010, as RMBS and CMBS continued to recover from the distressed pricing levels of the financial crisis. The increase in 2010 also includes an appreciation in available-for-sale equity securities.

The reclassification adjustments included in net income on unrealized appreciation of investments decreased by $0.5 billion in 2011 compared to 2010 as a result of realized gains and losses recognized on sales of securities classified as available for sale.

Change in Deferred Acquisition Costs Adjustment and Other

DAC amortization was reduced in 2011 and 2010 primarily as a result of increases in the unrealized appreciation of investments supporting interest-sensitive products. The declines also reflect the divestiture of multiple life insurance operations, including the sales of Nan Shan, AIG Star and AIG Edison in 2011, the deconsolidation of AIA in 2010 and sale of ALICO in 2010.

Change in Foreign Currency Translation Adjustments

The decline in foreign currency translation adjustments reflects the divestiture of multiple foreign operations, including the sales of Nan Shan, AIG Star and AIG Edison in 2011, the deconsolidation of AIA in 2010 and the sale of ALICO in 2010.

Change in Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities

The decline in 2011 compared to 2010 primarily reflects the gradual wind-down of the cash flow hedge portfolio, partially offset by a decline in the interest rate environment.

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Change in Retirement Plan Liabilities Adjustment

The decrease in 2011 was primarily due to the announced redesign and resulting remeasurement of the AIG Retirement and AIG Excess Plans, which was converted to cash balance plans effective April 1, 2012. AIG recognized a $590 million pre-tax reduction to Accumulated other comprehensive income in connection with the remeasurement in 2011, primarily due to a decrease in the discount rate since December 31, 2010. This decrease in Accumulated other comprehensive income was partially offset by the effect of the increase in the discount rate in the fourth quarter of 2011 in connection with the year end remeasurement.

Change Attributable to Divestitures and Deconsolidations

The change attributable to divestitures and deconsolidations in both periods reflect the derecognition of all items in Accumulated other comprehensive income (loss) at the point of sale and deconsolidation for all entities, including domestic entities. In 2011, the most significant entities were AIG Star, AIG Edison and Nan Shan. In 2010, the most significant entities were AIA and ALICO.

Deferred Taxes on Other Comprehensive Income

As discussed above, for the year ended December 31, 2011, the effective tax rate differs from the statutory 35 percent rate primarily due to the effects of the Nan Shan disposition.

For the year ended December 31, 2010, the effective tax rate on pre-tax Other Comprehensive Income was 42.5 percent, primarily due to the effects of the AIA initial public offering, the ALICO disposition and changes in the estimated U.S. tax liability with respect to the potential sale of subsidiaries, including AIG Star and AIG Edison.

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Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet our payment obligations. It is defined as cash and unencumbered assets that can be monetized in a short period of time at a reasonable cost. We manage our liquidity prudently through various risk committees, policies and procedures, and a stress testing and liquidity framework established by ERM. See Enterprise Risk Management Risk Governance Structure for additional information. The liquidity framework is designed to measure both the amount and composition of our liquidity to meet financial obligations in both normal and stressed markets. See Enterprise Risk Management Risk Appetite, Identification, and Measurement and Liquidity Risk Management for additional information.

Capital refers to the long-term financial resources available to support the operation of our businesses, fund business growth, and cover financial and operational needs that arise from adverse circumstances. Our primary source of ongoing capital generation is the profitability of our insurance subsidiaries. We and our insurance subsidiaries must comply with numerous constraints on our minimum capital positions. These constraints drive the requirements for capital adequacy for both the consolidated company and the individual businesses and are based on internally-defined risk tolerances, regulatory requirements, rating agency and creditor expectations and business needs. Actual capital levels are monitored on a regular basis and using ERM's stress testing methodology, we evaluate the capital impact of potential macroeconomic, financial and insurance stresses in relation to the relevant capital constraints of both the consolidated company and our insurance subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders, including reasonably foreseeable contingencies or events.

Nevertheless, some circumstances may cause our cash or capital needs to exceed projected liquidity or capital resources. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, downgrades in credit ratings, or catastrophic losses may result in significant additional cash or capital needs, loss of some sources of liquidity or capital, or both. In addition, regulatory, and other legal restrictions could limit our ability to transfer funds freely, either to or from our subsidiaries.

Depending on market conditions, regulatory and rating agency considerations and other factors, we may take various liability and capital management actions. Liability management actions may include, but are not limited to repurchasing or redeeming outstanding debt, issuing new debt or engaging in debt exchange offers. Capital management actions may include, but are not limited to, paying dividends to our shareholders, share purchases and acquisitions.

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Liquidity and Capital Resources Management Highlights 2012

Sources

Sales of AIA Shares

We sold our remaining interest of approximately 4.0 billion AIA ordinary shares for gross proceeds of approximately $14.5 billion.

ML III Distributions

We received approximately $8.5 billion in distributions from the FRBNY's dispositions of ML III assets.

AIG Parent Funding from Subsidiaries

Approximately $5.2 billion was paid to AIG Parent from subsidiaries in cash. In addition, AIG Parent received non-cash dividends of approximately $1.0 billion in the form of municipal bonds from AIG Property Casualty.

AIG Notes Offerings

We received approximately $3.8 billion in proceeds in registered public note offerings.

ALICO Escrow Release

Approximately $1.0 billion held in escrow to secure indemnifications provided to MetLife under the ALICO stock purchase agreement was released to AIG (see Note 16 to the Consolidated Financial Statements for additional information).

Uses

AIG Share Purchases

We purchased an aggregate of approximately $13 billion of AIG Common Stock at the initial public offering price in four registered public offerings of AIG Common Stock conducted by the Department of the Treasury, as the selling shareholder. See Note 17 to the Consolidated Financial Statements for additional information on these offerings.

Pay Down of AIA SPV Preferred Interests

We paid down in full the remaining $8.6 billion liquidation preference of the Department of the Treasury's AIA SPV Preferred Interests and redeemed the Department of the Treasury's preferred participating return rights in the AIA SPV and the special purpose vehicle holding the proceeds from the sale of ALICO (ALICO SPV). The payment was funded using both existing funds and approximately $1.6 billion in proceeds to us from the FRBNY's final disposition of ML II securities, approximately $6.0 billion in proceeds from the sale of AIA ordinary shares and funds allocated to the MIP.

Debt Reduction

We repaid an aggregate total of $7.7 billion of debt, which includes repayments by AIG Parent of $3.2 billion.

AIG Parent Funding to Subsidiaries

We made $1.2 billion in net capital contributions to subsidiaries, including a contribution of approximately $1.0 billion to AIG Property Casualty in the aftermath of Storm Sandy.

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On February 19, 2013, AIG commenced cash tender offers for (i) our 8.625% Series A-8 Junior Subordinated Debentures and 8.000% Series A-7 Junior Subordinated Debentures for a purchase price of up to $325 million, (ii) our 6.250% Series A-1 Junior Subordinated Debentures and 8.175% Series A-6 Junior Subordinated Debentures for a purchase price of up to $650 million and (iii) the 8 1/2% Capital Trust Pass-Through Securities of American General Capital II, the 7.57% Capital Securities, Series A of American General Institutional Capital A, the 8 1/8% Capital Securities, Series B of American General Institutional Capital B and the 5.60% Senior Debentures due July 2097 of SunAmerica Inc. assumed by AIG, for a purchase price of up to $275 million, in each case plus accrued interest or distributions through the settlement date. The offers are not cross-conditioned and AIG may complete all, some or none of the tender offers. The offers are scheduled to expire on March 18, 2013 with an early participation period through March 4, 2013, in each case subject to amendment and to extension in AIG's sole discretion. The purpose of the tender offers is to purchase certain outstanding debt issued or guaranteed by AIG and to reduce its level of indebtedness and its interest expense.

See Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Parent Sources and Uses of Liquidity and Capital Resources of AIG Parent herein for further discussion.

Analysis of Sources and Uses of Cash

The following table presents selected data from AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, *(in millions)*	**2012**	**2011**	**2010**
Sources:			
Net cash provided by (used in) operating activities continuing operations	**$ 748**	$ (6,256)	$ 6,161
Net cash provided by operating activities discontinued operations	**2,928**	6,175	10,436
Net cash provided by changes in restricted cash	**695**	27,202	
Net cash provided by other investing activities	**15,917**	9,246	17,114
Changes in policyholder contract balances		4,333	4,673
Issuance of other long-term debt	**4,844**	3,190	3,342
Federal Reserve Bank of New York credit facility borrowings			19,900
Proceeds from drawdown on the Department of Treasury Commitment		20,292	2,199
Issuance of Common Stock		5,055	
Net cash provided by other financing activities	**4,194**		
Total sources	**29,326**	69,237	63,825
Uses:			
Changes in restricted cash			(27,026)
Changes in policyholder contract balances	**(690)**		
Repayments of other long-term debt	**(7,276)**	(9,486)	(7,986)
Federal Reserve Bank of New York credit facility repayments		(14,622)	(23,178)
Repayment of Department of Treasury SPV Preferred Interests	**(8,636)**	(12,425)	
Repayment of Federal Reserve Bank of New York SPV Preferred Interests		(26,432)	
Purchases of AIG Common Stock	**(13,000)**	(70)	
Net cash used in other financing activities		(6,761)	(8,211)
Total uses	**(29,602)**	(69,796)	(66,401)
Effect of exchange rate changes on cash	**16**	29	39
Decrease in cash	**(260)**	(530)	(2,537)

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The following table presents a summary of AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, *(in millions)*	2012	2011	2010
Summary:			
Net cash provided by (used in) operating activities	**$ 3,676**	$ (81)	$ 16,597
Net cash provided by (used in) investing activities	**16,612**	36,448	(9,912)
Net cash used in financing activities	**(20,564)**	(36,926)	(9,261)
Effect of exchange rate changes on cash	**16**	29	39
Decrease in cash	**(260)**	(530)	(2,537)
Cash at beginning of year	**1,474**	1,558	4,400
Change in cash of businesses held for sale	**(63)**	446	(305)
Cash at end of year	**$ 1,151**	$ 1,474	$ 1,558

Operating Cash Flow Activities

Interest payments totaled $4.0 billion in 2012 compared to $9.0 billion in 2011. Cash paid for interest in 2011 includes the payment of FRBNY Credit Facility accrued compounded interest totaling $6.4 billion. Excluding interest payments, AIG generated positive operating cash flow of $7.7 billion and $8.9 billion in 2012 and 2011, respectively.

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits. The ability of insurance companies to generate positive cash flow is affected by the frequency and severity of losses under their insurance policies, policy retention rates and operating expenses.

Cash provided by AIG Property Casualty operating activities was $1.1 billion in 2012 compared to $1.9 billion in 2011, primarily reflecting the decrease in net premiums written as a result of the continued execution of strategic initiatives to improve business mix and the timing of the cash flows used to pay claims and claims adjustment expenses and the related reinsurance recoveries.

Cash provided by operating activities by AIG Life and Retirement was $2.9 billion in 2012 compared to $2.4 billion in 2011, primarily reflecting efforts to actively manage spread income.

Cash provided by operating activities of discontinued operations of $2.9 billion in 2012 compared to $6.2 billion in 2011, includes ILFC, and in 2011 and 2010, foreign life insurance subsidiaries that were divested in 2011, including Nan Shan, AIG Star and AIG Edison.

Net cash provided by operating activities declined in 2011 compared to 2010, principally due to the following:

- the cash payment by AIG Parent of $6.4 billion in accrued compounded interest and fees under the FRBNY Credit Facility. In prior periods, these payments were paid in-kind and did not affect operating cash flows;

- cash provided by operating activities of foreign life subsidiaries declined by $10.4 billion due to the sale of those subsidiaries (AIA, ALICO, AIG Star, AIG Edison and Nan Shan). The subsidiaries generated operational cash inflows of $3.4 billion and $13.8 billion in 2011 and 2010, respectively; and

- the effect of catastrophes and the cession of a large portion of AIG Property Casualty's net asbestos liabilities in the U.S. to NICO. Excluding the impact of the NICO cession and catastrophes, cash provided by AIG's reportable segments in 2011 is consistent with 2010, as increases in claims paid were offset by increases in premiums collected at the insurance subsidiaries.

Investing Cash Flow Activities

Net cash provided by investing activities for 2012 includes the following items:

- payments received relating to the sale of the underlying assets held by ML II of approximately $1.6 billion;
- payments of approximately $8.5 billion received in connection with the dispositions of ML III assets by the FRBNY;

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- gross proceeds of approximately $14.5 billion from the sale of approximately 4.0 billion AIA ordinary shares; and
- approximately $2.1 billion of cash collateral received in connection with the securities lending program launched during 2012 by AIG Life and Retirement.

Net cash provided by investing activities in 2011 was primarily attributable to:

- the utilization of $26.4 billion of restricted cash generated from the AIA IPO and ALICO sale in connection with the Recapitalization and $9.6 billion from the disposition of MetLife securities;
- the sale of AIG Star, AIG Edison and Nan Shan in 2011 for total proceeds of $6.4 billion; and
- net sales of short term investments and maturities of available for sale investments, primarily at AIG Property Casualty and AIG Life and Retirement, which were partially offset by purchases of available for sale investments.

Net cash used in investing activities in 2010 primarily resulted from net purchases of fixed maturity securities, resulting from our investment of cash generated from operating activities, and the redeployment of liquidity that had been accumulated by the insurance companies in 2009.

Financing Cash Flow Activities

Net cash used in financing activities during 2012 includes the following activities:

- $8.6 billion pay down of the Department of the Treasury's AIA SPV Preferred Interests; and
- total payments of approximately $13.0 billion for the purchase of approximately 421 million shares of AIG Common Stock.

Net cash used in financing activities for 2011 primarily resulted from the repayment of the FRBNY Credit Facility and the $12.4 billion partial repayment of the AIA SPV Preferred Interests and the ALICO SPV in connection with the Recapitalization and use of proceeds received from the sales of foreign life insurance entities in 2011.

Net cash used in financing activities in 2010 reflected declines in policyholder contract withdrawals, due to improved conditions for the life insurance and retirement services businesses. This was partially offset by the issuance of long-term debt.

Liquidity and Capital Resources of AIG Parent and Subsidiaries

AIG Parent

As of December 31, 2012, AIG Parent had $16.1 billion in liquidity resources. AIG Parent's primary sources of liquidity are dividends, distributions, and other payments from subsidiaries, as well as credit and contingent liquidity facilities. AIG Parent's primary uses of liquidity are for debt service, capital management, operating expenses and subsidiary capital needs.

AIG Parent's primary sources of capital are dividends and distributions from subsidiaries. AIG Parent has unconditional capital maintenance agreements (CMAs) in place with certain AIG Property Casualty and AIG Life and Retirement subsidiaries to facilitate the transfer of capital and liquidity within the consolidated company. We expect these CMAs to continue to enhance AIG's capital management practices, and help manage the flow of capital between AIG Parent and these subsidiaries. We have entered into and expect to enter into additional CMAs with certain other insurance companies in 2013. See AIG Property Casualty and AIG Life and Retirement below for additional information. Nevertheless, regulatory and other legal restrictions could limit our ability to transfer capital freely, either to or from our subsidiaries.

We believe that we have sufficient liquidity and capital resources to satisfy future requirements and meet our obligations to policyholders, customers, creditors and debt-holders. We expect to access the debt markets from time to time to meet funding requirements as needed.

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The following table presents AIG Parent's liquidity:

(In millions)		As of December 31, 2012
Cash and short-term investments[(a)]	$	12,586
Available capacity under Syndicated Credit Facility[(b)]		3,037
Available capacity under Contingent Liquidity Facility[(c)]		500
Total AIG Parent liquidity sources	$	16,123

(a) Includes reverse repurchase agreements totaling $8.9 billion, which are secured short term investments.

(b) AIG entered into an amended and restated syndicated bank credit facility on October 5, 2012. For additional information relating to this credit facility, see Credit Facilities below.

(c) For additional information relating to the contingent liquidity facility, see Contingent Liquidity Facilities below.

Sources and Uses of Liquidity and Capital Resources of AIG Parent

Sources

During 2012, we:

sold our entire interest of approximately 3.9 billion AIA ordinary shares for gross proceeds of approximately $14.0 billion (excluding proceeds from the sale of AIA ordinary shares held by AIA SPV to an AIG Property Casualty subsidiary);

received approximately $8.5 billion in distributions from the FRBNY's dispositions of ML III assets;

collected approximately $5.2 billion in cash distributions from subsidiaries, including:

approximately $2.9 billion in note repayments from AIG Life and Retirement subsidiaries funded by payments of dividends from subsidiaries of which $1.6 billion represented proceeds from the FRBNY's sale of ML II assets;

approximately $1.5 billion in cash dividends from AIG Property Casualty;

$400 million in dividends from the AIA SPV, representing the proceeds from the sale of shares of AIA held by the AIA SPV to an AIG Property Casualty subsidiary;

received non-cash dividends of approximately $1.0 billion in the form of municipal bonds from AIG Property Casualty;

issued $750 million principal amount of 3.000% Notes Due 2015 and $1.25 billion principal amount of 3.800% Notes Due 2017. These proceeds were used to continue to reduce the risk of, and better match the assets and liabilities in, the MIP (described more fully in Other Operations Direct Investment Book below);

issued $1.5 billion principal amount of 4.875% Notes Due 2022. These proceeds are being used for general corporate purposes which are currently expected to include the repayment of debt maturing in 2013;

issued $250 million principal amount of 2.375% Subordinated Notes Due 2015. Proceeds from this offering are being used for general corporate purposes; and

received approximately $1.0 billion that was released to AIG from an escrow that secures indemnifications provided to MetLife under the ALICO stock purchase agreement (see Note 16 to the Consolidated Financial Statements for additional information).

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Uses

During 2012, we:

purchased an aggregate of approximately $13.0 billion of AIG Common Stock at the initial public offering price in four registered public offerings of AIG Common Stock completed by the Department of the Treasury, as the selling shareholder; we purchased approximately 421 million shares (see Note 17 to the Consolidated Financial Statements for additional information on these offerings);

retired $3.2 billion of debt, including $2.6 billion of MIP long-term debt, and made interest pay- ments totaling $2.1 billion;

utilized approximately $1.6 billion in proceeds from the distributions from ML II, approximately $6.0 billion in gross proceeds from the sale of AIA ordinary shares and existing funds from the MIP to pay down in full the liquidation preference of the AIA SPV Preferred Interests and redeem the Department of the Treasury's preferred participating return rights in the AIA SPV and the ALICO SPV; as a result, the following items, which had been held as security to support the repayment of the AIA SPV Preferred Interests, were released from that pledge:

the equity interests in ILFC,

the ordinary shares of AIA held by the AIA SPV,

the common equity interest in the AIA SPV held by us,

our interests in ML III, and

cash held in escrow to secure indemnifications provided to MetLife under the ALICO stock purchase agreement.

paid $550 million as a result of final approval of a settlement under the Consolidated 2004 Securities Litigation (see Note 16 to the Consolidated Financial Statements for additional information); and

made $1.2 billion in net capital contributions to subsidiaries, including a contribution of approximately $1.0 billion to AIG Property Casualty in the aftermath of Storm Sandy.

AIG Property Casualty

We expect that AIG Property Casualty subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. AIG Property Casualty subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling $8.6 billion as of December 31, 2012. Further, AIG Property Casualty subsidiaries maintain significant levels of investment-grade fixed maturity securities, including substantial holdings in government and corporate bonds, which could be monetized in the event liquidity levels are deemed insufficient.

AIG Property Casualty paid cash and non-cash dividends totaling of $2.5 billion to AIG Parent in 2012, consisting of cash and municipal bonds, including $902 million of cash dividends in the fourth quarter of 2012.

In December 2012, AIG Parent contributed $1.0 billion of capital to AIG Property Casualty U.S. insurance companies to strengthen capital levels, as a result of the impact of Storm Sandy-related catastrophe losses.

AIG Parent could be required to provide additional funding to AIG Property Casualty subsidiaries to meet capital or liquidity needs under certain circumstances, including:

- large catastrophes that may require AIG to provide additional support to the affected operations;

- downgrades in AIG's credit ratings that could put pressure on the insurer financial strength ratings of AIG's subsidiaries which could result in non-renewals or cancellations by policyholders and adversely affect the subsidiary's ability to meet its own obligations;

increases in market interest rates that may adversely affect the financial strength ratings of our subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital; and

other potential events that could cause a liquidity strain, including economic collapse of a nation or region significant to our operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

In February 2012, AIG Parent, Chartis Inc. and certain AIG Property Casualty domestic insurance subsidiaries, entered into a single CMA, which replaced the CMAs entered into in February 2011. Under the 2012 CMA, the total adjusted capital and total authorized control level Risk-Based Capital (RBC) (as defined by National Association of Insurance Commissioners (NAIC) guidelines and determined based on the subsidiaries' statutory financial statements) of these AIG Property Casualty insurance subsidiaries are measured as a group (the Fleet) rather than on an individual company basis.

Among other things, the 2012 CMA provides that AIG Parent will maintain the total adjusted capital of the Fleet at or above the specified minimum percentage of the Fleet's projected total authorized control level RBC. As a result, the 2012 CMA provides that if the total adjusted capital of the Fleet falls below the specified minimum percentage of the Fleet's total authorized control level RBC, AIG Parent will contribute cash or other instruments admissible under applicable regulations to Chartis Inc., which will further contribute such funds to the AIG Property Casualty subsidiaries in the amount necessary to increase the Fleet's total adjusted capital to a level at least equal to such specified minimum percentage. Any required contribution under the 2012 CMA would generally be made during the second and fourth quarters of each year; however, AIG Parent may also make contributions in such amounts and at such times as it deems appropriate. In addition, the 2012 CMA provides that if the total adjusted capital of the Fleet exceeds that same specified minimum percentage of the Fleet's total authorized control level RBC, subject to board approval, the AIG Property Casualty insurance subsidiaries would declare and pay ordinary dividends to their respective equity holders up to an amount that is the lesser of:

(i) the amount (to be determined by Chartis Inc.) necessary to reduce the Fleet's projected or actual total adjusted capital to a level equal to or not materially greater than such specified minimum percentage or

(ii) the maximum amount of ordinary dividends permitted under applicable insurance law.

The 2012 CMA does not prohibit, however, the payment of extraordinary dividends, subject to board or regulatory approval, to reduce the Fleet's projected or actual total adjusted capital to a level equal to or not materially greater than the specified minimum percentage. Any required dividend under the 2012 CMA would generally be made on a quarterly basis. As structured, the 2012 CMA contemplates that the specified minimum percentage would be reviewed and agreed upon at least annually.

For the years ended December 31, 2012 and 2011, AIG Parent received $2.3 billion and $1.3 billion, respectively, in dividends from Chartis Inc. that were made pursuant to the CMAs then in place, and AIG Parent was not required to make any capital contributions in either period pursuant to the CMAs then in place.

On February 20, 2013, the 2012 CMA was amended to exclude deferred tax assets from the calculation of total adjusted capital. As a result, effective February 20, 2013, the specified minimum percentage decreased from 350 percent to 325 percent.

In March 2012, the National Union Fire Insurance Company of Pittsburgh, Pa. (NUFI), an AIG Property Casualty company, became a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. In August 2012, Chartis Specialty Insurance Company (CSI), an AIG Property Casualty company, became a member of the FHLB of Chicago. FHLB membership provides participants with access to various services, including access to low-cost advances through pledging of certain mortgage-backed securities, government and agency securities and other qualifying assets. These advances may be used to provide an additional source of liquidity for balance sheet management or contingency funding purposes. As of December 31, 2012, neither NUFI nor CSI had any advances outstanding under their respective FHLB facilities.

AIG Life and Retirement

We believe that AIG Life and Retirement subsidiaries have liquidity sources adequate to satisfy future liquidity requirements and meet their obligations, including those arising from reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. The AIG Life and Retirement subsidiaries maintain liquidity in the form of cash and short-term investments, totaling $7.8 billion as of December 31, 2012. In 2012, AIG Life and Retirement provided $2.9 billion of liquidity to AIG Parent through note repayments funded by the payment of dividends from insurance subsidiaries. These payments included a $1.6 billion distribution relating to the liquidation of ML II and a distribution of $440 million in the form of a note repayment.

The need to fund product surrenders, withdrawals and maturities creates a significant potential liquidity requirement for AIG Life and Retirement's subsidiaries. We believe that because of the size and liquidity of our investment portfolios, AIG Life and Retirement does not face a significant liquidity risk due to normal deviations from projected claim or surrender experience. As part of its risk management framework, AIG Life and Retirement continues to evaluate programs, including securities lending programs and other secured financings, to improve its liquidity position and facilitate AIG Life and Retirement's ability to maintain a fully invested asset portfolio.

During 2012, AIG Life and Retirement began utilizing programs that lend securities from its investment portfolio to supplement liquidity or for other uses as deemed appropriate by management. Under these programs, the AIG Life and Retirement subsidiaries lend securities to financial institutions and receive collateral equal to 102 percent of the fair value of the loaned securities. Reinvestment of cash collateral received is restricted to highly liquid short-term investments. AIG Life and Retirement's liability to the borrower for collateral received was $3.1 billion as of December 31, 2012. In addition, in 2011, certain AIG Life and Retirement insurance subsidiaries became members of the FHLBs in their respective districts. As of December 31, 2012, AIG Life and Retirement had outstanding borrowings of $82 million from the FHLBs.

In March 2011, AIG Parent entered into CMAs with certain AIG Life and Retirement insurance subsidiaries. Among other things, the CMAs provide that AIG Parent will maintain the total adjusted capital of each of these AIG Life and Retirement insurance subsidiaries at or above a specified minimum percentage of the subsidiary's projected Company Action Level RBC. As a result, the CMAs provide that if the total adjusted capital of these AIG Life and Retirement insurance subsidiaries falls below the specified minimum percentage of their respective Company Action Level RBC, AIG Parent will contribute cash or instruments admissible under applicable regulations to these AIG Life and Retirement insurance subsidiaries in the amount necessary to increase total adjusted capital to a level at least equal to such specified minimum percentage. Any required contribution under the CMAs would generally be made during the second and fourth quarters of each year; however, AIG Parent may also make contributions in such amounts and at such times as it deems appropriate.

In addition, the CMAs provide that if the total adjusted capital of these AIG Life and Retirement insurance subsidiaries is in excess of that same specified minimum percentage of their respective total company action level RBC, subject to board approval, the subsidiaries would declare and pay ordinary dividends to their respective equity holders up to an amount that is the lesser of:

(i) the amount necessary to reduce projected or actual total adjusted capital to a level equal to or not materially greater than such specified minimum percentage or

(ii) the maximum amount of ordinary dividends permitted under applicable insurance law.

The CMAs do not prohibit, however, the payment of extraordinary dividends, subject to board and regulatory approval, to reduce projected or actual total adjusted capital to a level equal to or not materially greater than the specified minimum percentage. Any required dividend under the CMAs would generally be made on a quarterly basis. As structured, the CMAs contemplate that the specified minimum percentage would be reviewed and agreed upon at least annually. As a result of a reduction in rating agency minimum requirements and greater capital efficiency arising from the consolidation of legal entities, the specified minimum percentage decreased from 435 percent to 385 percent effective February 19, 2013, except for the CMA with AGC Life Insurance Company, where the specified minimum percentage remained at 250 percent.

For the years ended December 31, 2012 and 2011, AIG Parent received a total of approximately $2.9 billion and $1.4 billion, respectively, in distributions from AIG Life and Retirement subsidiaries in the form of note repayments funded by the payment of dividends from these subsidiaries, which were made under the CMAs. AIG Parent was not required to make any capital contributions to AIG Life and Retirement subsidiaries in either period under the CMAs then in place.

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Other Operations

Mortgage Guaranty

We currently expect that our Mortgage Guaranty subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including requirements arising out of reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. Mortgage Guaranty subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling $699 million as of December 31, 2012. Mortgage Guaranty businesses also maintain significant levels of investment-grade fixed maturity securities, which could be monetized in the event liquidity levels are insufficient to meet obligations. These securities included substantial holdings in municipal and corporate bonds totaling $3.5 billion at December 31, 2012.

Global Capital Markets

GCM acts as the derivatives intermediary between AIG and its subsidiaries and third parties to provide hedging services. It executes its derivative trades under International Swaps and Derivatives Association, Inc. (ISDA) agreements. The agreements with third parties typically require collateral postings. Many of GCM's transactions with AIG and its subsidiaries also include collateral posting requirements. However, generally, no collateral is called under these contracts unless it is needed to satisfy posting requirements with third parties. Most of GCM's CDS are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. The amount of future collateral posting requirements is a function of our credit ratings, the rating of the reference obligations and the market value of the relevant reference obligations, with the latter being the most significant factor. We estimate the amount of potential future collateral postings associated with the super senior CDS using various methodologies. The contingent liquidity requirements associated with such potential future collateral postings are incorporated into our liquidity planning assumptions.

As of December 31, 2012 and December 31, 2011, respectively, GCM had total assets of $8.0 billion and $9.6 billion and total liabilities of $4.9 billion and $5.8 billion. GCM's assets consist primarily of cash, short-term investments, other receivables, net of allowance, and unrealized gains on swaps, options and forwards. GCM's liabilities consist primarily of trade payables and unrealized losses on swaps, options and forwards. Collateral posted included in GCM to third parties was $4.2 billion and $5.1 billion at December 31, 2012 and December 31, 2011, respectively. Collateral obtained included in GCM from third parties was $846 million and $1.2 billion at December 31, 2012 and December 31, 2011, respectively. The collateral amounts reflect counterparty netting adjustments available under master netting agreements and are inclusive of collateral that exceeded the fair value of derivatives as of the reporting date.

Direct Investment Book

The DIB is managed so that it maintains the liquidity that we believe is necessary to meet all of the DIB liabilities as they come due, even under stress scenarios, without having to liquidate DIB assets or rely on additional liquidity from AIG Parent. If the DIB's risk target is breached, we expect to take appropriate actions to increase the DIB's liquidity sources or reduce liquidity requirements to maintain the risk target, although no assurance can be given that this can be achieved under then-prevailing market conditions. Any additional liquidity shortfalls would need to be funded by AIG Parent.

The DIB's assets consist primarily of cash, short term investments, fixed maturity securities issued by U.S. government and government sponsored entities, mortgage and asset backed securities and, to a lesser extent, bank loans and mortgage loans. The DIB's liabilities consist primarily of notes and other borrowings supported by assets as well as other short-term financing obligations. As of December 31, 2012 and December 31, 2011, respectively, the DIB had total assets of $28.5 billion and $31.0 billion and total liabilities of $23.8 billion and $28.2 billion.

The overall hedging activity for the assets and liabilities of the DIB is executed by GCM. The value of hedges related to the non-derivative assets and liabilities of AIGFP in the DIB is included within the assets and liabilities and operating results of GCM and are not included within the DIB operating results, assets or liabilities.

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Collateral posted by operations included in the DIB to third parties was $4.3 billion and $5.1 billion at December 31, 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.

The following summarizes significant liquidity events during 2012:

- The DIB used current program liquidity to pay down $6.6 billion in debt. In addition, in the first quarter of 2012, AIG issued $2.0 billion aggregate principal amount of unsecured notes, consisting of $750 million principal amount of 3.000% Notes Due 2015 and $1.25 billion principal amount of 3.800% Notes Due 2017. The proceeds from the sale of these notes were used to reduce overall risk and better match the assets and liabilities in the MIP. The notes are included within MIP notes payable in the debt outstanding table in "Debt Debt Maturities" below.

- AIG Parent allocated cash from the MIP to pay down the AIA SPV Preferred Interests. In exchange, AIG's remaining interest in ML III and the future proceeds from the cash held in escrow to secure indemnities provided to MetLife were allocated to the MIP.

- The DIB received approximately $8.5 billion in distributions from the FRBNY's auctions of ML III assets.

Credit Facilities

We maintain a committed revolving four-year syndicated credit facility (the Four-Year Facility) as a potential source of liquidity for general corporate purposes. The Four-Year Facility also provides for the issuance of letters of credit. We currently expect to replace or extend the Four-Year Facility on or prior to its expiration in October 2016, although no assurance can be given that the Four-Year Facility will be replaced on favorable terms or at all.

The Four-Year Facility provides for $4.0 billion of unsecured revolving loans, which includes a $2.0 billion letter of credit sublimit. Our ability to borrow under the Four-Year Facility is not contingent on our credit ratings. However, our ability to borrow under the Four-Year Facility is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the Four-Year Facility. These include covenants relating to our maintenance of a specified total consolidated net worth and total consolidated debt to total consolidated capitalization. Failure to satisfy these and other requirements contained in the Four-Year Facility would restrict our access to the Four-Year Facility and could have a material adverse effect on our financial condition, results of operations and liquidity.

See Note 15 to the Consolidated Financial Statements for further discussion of the Four-Year Facility.

Contingent Liquidity Facilities

AIG Parent has access to a contingent liquidity facility of up to $500 million as a potential source of liquidity for general corporate purposes. Under this facility, we have the unconditional right, prior to December 15, 2015, to issue up to $500 million in senior debt to the counterparty, based on a put option agreement between AIG Parent and the counterparty.

Our ability to borrow under this facility is not contingent on our credit ratings.

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Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2012		Payments due by Period			
(in millions)	**Total Payments**	**2013**	**2014 - 2015**	**2016 - 2017**	**Thereafter**
Insurance operations					
Loss reserves	$ 91,237	$ 23,579	$ 26,111	$ 13,480	$ 28,067
Insurance and investment contract liabilities	234,492	14,502	25,144	24,066	170,780
Borrowings	1,843	43	15	8	1,777
Interest payments on borrowings	3,525	131	264	265	2,865
Operating leases	1,196	284	390	276	246
Other long-term obligations	37	9	14	8	6
Total	$ 332,330	$ 38,548	$ 51,938	$ 38,103	$ 203,741
Other and discontinued operations					
Borrowings[(a)]	69,166	7,199	11,670	16,104	34,193
Interest payments on borrowings	48,478	3,873	6,931	5,525	32,149
Operating leases	302	106	99	33	64
Aircraft purchase commitments	17,511	1,517	4,146	7,374	4,474
Other long-term obligations	231	56	84		91
Total	$ 135,688	$ 12,751	$ 22,930	$ 29,036	$ 70,971
Consolidated					
Loss reserves[(b)]	$ 91,237	$ 23,579	$ 26,111	$ 13,480	$ 28,067
Insurance and investment contract liabilities	234,492	14,502	25,144	24,066	170,780
Borrowings[(a)]	71,009	7,242	11,685	16,112	35,970
Interest payments on borrowings	52,003	4,004	7,195	5,790	35,014
Operating leases	1,498	390	489	309	310
Aircraft purchase commitments	17,511	1,517	4,146	7,374	4,474
Other long-term obligations[(c)]	268	65	98	8	97
Total[(d)]	$ 468,018	$ 51,299	$ 74,868	$ 67,139	$ 274,712

(a) Includes $24.3 billion of borrowings related to ILFC

(b) Loss reserves relate to the AIG Property Casualty and the Mortgage Guaranty business, and represent future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments. We believe that the AIG Property Casualty and Mortgage Guaranty subsidiaries maintain adequate financial resources to meet the actual required payments under these obligations.

(c) Primarily includes contracts to purchase future services and other capital expenditures.

(d) Does not reflect unrecognized tax benefits of $4.4 billion ($4.1 billion excluding Aircraft Leasing), the timing of which is uncertain. In addition, the majority of our credit default swaps require us to provide credit protection on a designated portfolio of loans or debt securities. At December 31, 2012, the fair value derivative liability was

$1.9 billion, relating to the super senior multi-sector CDO credit default swap portfolio. At December 31, 2012, collateral posted with respect to these swaps was $1.6 billion.

Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to AIG Life and Retirement businesses. These liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. These liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) we are currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship or (iii) payment may occur due to a surrender or other non-scheduled event out of our control.

We have made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits. These assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on in-force policies. Due to the significance of the assumptions, the periodic amounts presented could be materially different from actual required payments. The

amounts presented in this table are undiscounted and exceed the future policy benefits and policyholder contract deposits included in the Consolidated Balance Sheet.

We believe that AIG Life and Retirement subsidiaries have adequate financial resources to meet the payments actually required under these obligations. These subsidiaries have substantial liquidity in the form of cash and short-term investments. In addition, AIG Life and Retirement businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds, and could seek to monetize those holdings in the event operating cash flows are insufficient. We expect liquidity needs related to GIC liabilities to be funded through cash flows generated from maturities and sales of invested assets.

Borrowings

Our borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. We expect to repay the long-term debt maturities and interest accrued on borrowings by AIG and its subsidiaries through maturing investments and asset sales, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements.

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Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

December 31, 2012		Amount of Commitment Expiring			
	Total Amounts		2014 -	2016 -	
(in millions)	Committed	2013	2015	2017	Thereafter
Insurance operations					
Guarantees:					
Standby letters of credit	802			725	77
Guarantees of indebtedness	178				178
All other guarantees[(b)]	16	7	7		2
Commitments:					
Investment commitments[(c)]	1,861	1,459	204	198	
Commitments to extend credit	234	192	41		1
Letters of credit	10	10			
Other commercial commitments[(d)]	688				688
Total[(e)]	$ 3,789	$ 1,668	$ 252	$ 923	$ 946
Other and discontinued operations					
Guarantees:					
Liquidity facilities[(a)]	$ 101	$	$	$	$ 101
Standby letters of credit	307	299	6	1	1
All other guarantees[(b)]	407	171	35	109	92
Commitments:					
Investment commitments[(c)]	396	302	70	25	(1)
Commitments to extend credit	72	70	4		(2)
Letters of credit	16	16			
Other commercial commitments[(d)]	17	16	2		(1)
Total[(e)(f)]	$ 1,316	$ 874	$ 117	$ 135	$ 190
Consolidated					
Guarantees:					
Liquidity facilities[(a)]	$ 101	$	$	$	$ 101
Standby letters of credit	1,109	299	6	726	78
Guarantees of indebtedness	178				178
All other guarantees[(b)]	423	178	42	109	94
Commitments:					
Investment commitments[(c)]	2,257	1,761	274	223	(1)
Commitments to extend credit	306	262	45		(1)
Letters of credit	26	26			
Other commercial commitments[(d)]	705	16	2		687
Total[(e)(f)]	$ 5,105	$ 2,542	$ 369	$ 1,058	$ 1,136

(a) Primarily represents liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.

(b) Includes residual value guarantees associated with aircraft and AIG Life and Retirement construction guarantees connected to affordable housing investments. Excludes potential amounts for indemnification obligations included in

asset sales agreements. See Note 16 to the Consolidated Financial Statements for further information on indemnification obligations. .

(c) Includes commitments to invest in private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.

(d) Excludes commitments with respect to pension plans. The annual pension contribution for 2013 is expected to be approximately $100 million for U.S. and non-U.S. plans.

(e) Does not include guarantees, capital maintenance agreements or other support arrangements among AIG consolidated entities.

(f) Includes $340 million attributable to ILFC, which is reported as discontinued operations.

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Securities Financing

At December 31, 2012, there were no securities transferred under repurchase agreements accounted for as sales and no related cash collateral obtained. See Note 2 to the Consolidated Financial Statements for additional information on the modification of the criteria for determining whether securities transferred under repurchase agreements are accounted for as sales.

Arrangements with Variable Interest Entities

While AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business, our involvement with VIEs is primarily as a passive investor in fixed maturity securities (rated and unrated) and equity interests issued by VIEs. We consolidate a VIE when we are the primary beneficiary of the entity. For a further discussion of our involvement with VIEs, see Note 11 to the Consolidated Financial Statements.

Indemnification Agreements

We are subject to financial guarantees and indemnity arrangements in connection with our sales of businesses. These arrangements may be triggered by declines in asset values, specified business contingencies, the realization of contingent liabilities, litigation developments, or breaches of representations, warranties or covenants provided by us. These arrangements are typically subject to time limitations, defined by the contract or by operation of law, such as by prevailing statutes of limitation. Depending on the specific terms of the arrangements, the maximum potential obligation may or may not be subject to contractual limitations. For additional information regarding our indemnification agreements, see Note 16 to the Consolidated Financial Statements.

We have recorded liabilities for certain of these arrangements where it is possible to estimate them. These liabilities are not material in the aggregate. We are unable to develop a reasonable estimate of the maximum potential payout under some of these arrangements. Overall, we believe that it is unlikely we will have to make any material payments related to completed sales under these arrangements.

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Debt

The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2012 *(in millions)*	**Balance at December 31, 2011**	**Issuances**	**Maturities and Repayments**	**Effect of Foreign Exchange**	**Other Changes**	**Activity of Discontinued Operations[(a)]**	**Reclassified to Liabilities of businesses held for sale**	**Balance at December 31, 2012**
Debt issued or guaranteed by AIG:								
AIG general borrowings:								
Notes and bonds payable	$ 12,725	$ 1,508	$ (244)	$ 96	$ (1)	$	$	**$ 14,084**
Subordinated debt		250						**250**
Junior subordinated debt	9,327			91	(2)			**9,416**
Loans and mortgages payable	234		(145)	(14)	4			**79**
SunAmerica Financial Group, Inc. notes and bonds payable	298							**298**
Liabilities connected to trust preferred stock	1,339							**1,339**
Total AIG general borrowings	23,923	1,758	(389)	173	1			**25,466**
AIG borrowings supported by assets:(b)								
MIP notes payable	10,147	1,996	(2,618)	(143)	(86)			**9,296**
Series AIGFP matched notes and bonds payable	3,807		(234)		(29)			**3,544**
GIAs, at fair value	7,964	591	(2,009)		(45)			**6,501**
Notes and bonds payable, at fair value	2,316	17	(1,498)		719			**1,554**
Loans and mortgages payable, at fair value	486		(488)		2			
Total AIG borrowings supported by assets	24,720	2,604	(6,847)	(143)	561			**20,895**
Total debt issued or guaranteed by AIG	48,643	4,362	(7,236)	30	562			**46,361**
Debt not guaranteed by AIG:								
ILFC:								
Notes and bonds payable, ECA facility, bank financings and other secured financings	23,365					(42)	(23,323)	
Junior subordinated debt	999						(999)	
Total ILFC debt	24,364					(42)	(24,322)	
Other subsidiaries notes, bonds, loans and mortgages payable	393	101	(164)	(2)	(3)			**325**
Debt of consolidated investments	1,853	381	(263)	32	(189)			**1,814**
Total debt not guaranteed by AIG	26,610	482	(427)	30	(192)	(42)	(24,322)	**2,139**

Total debt	$ 75,253	$ 4,844	$ (7,663)	$ 60	$ 370	(42)	(24,322)	**$ 48,500**

(a) Primarily represents activity related to ILFC.

(b) AIG Parent guarantees all DIB debt, except for MIP notes payable and Series AIGFP matched notes and bonds payable, which are direct obligations of AIG Parent.

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Debt Maturities AIG and Subsidiaries

The following table summarizes maturing debt at December 31, 2012 of AIG and its subsidiaries for the next four quarters:

(in millions)	First Quarter 2013	Second Quarter 2013	Third Quarter 2013	Fourth Quarter 2013	Total
AIG general borrowings	$ 75	$ 1,000	$ 2	$ 469	$ 1,546
AIG borrowings supported by assets	483	222	819	76	1,600
Other subsidiaries notes, bonds, loans and mortgages payable	35	6	1	1	43
Total	$ 593	$ 1,228	$ 822	$ 546	$ 3,189

AIG borrowings supported by assets consisted of debt under the DIB. At December 31, 2012, all of the debt maturities in the DIB through December 31, 2013 are supported by short-term investments and maturing investments.

See Note 15 to the Consolidated Financial Statements for additional details for debt outstanding.

Credit Ratings

Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability to that company of financing. The following table presents the credit ratings of AIG and certain of its subsidiaries as of February 13, 2013. Figures in parentheses indicate the relative ranking of the ratings within the agency's rating categories; that ranking refers only to the major rating category and not to the modifiers assigned by the rating agencies.

	Short-Term Debt		Senior Long-Term Debt		
	Moody's	S&P	Moody's[a]	S&P[b]	Fitch[c]
AIG	P-2 (2nd of 3) *Stable Outlook*	A-2 (2nd of 8)	Baa 1 (4th of 9) *Stable Outlook*	A- (3rd of 8) *Negative Outlook*	BBB (4th of 9) *Stable Outlook*
AIG Financial Products Corp.[d]	P-2 *Stable Outlook*	A-2	Baa 1 *Stable Outlook*	A- *Negative Outlook*	
AIG Funding, Inc.[d]	P-2 *Stable Outlook*	A-2			

(a) Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.

(b) S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(c) Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

(d) AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.

These credit ratings are current opinions of the rating agencies. They may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at our request.

We are party to some agreements that contain "ratings triggers". Depending on the ratings maintained by one or more rating agencies, these triggers could result in (i) the termination or limitation of credit availability or require accelerated repayment, (ii) the termination of business contracts or (iii) requirement to post collateral for the benefit of counterparties.

In the event of adverse actions on our long-term debt ratings by the major rating agencies, AIGFP would be required to post additional collateral under some derivative transactions, or to permit termination of the transactions. Such transactions could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP would be required to post additional collateral, and certain of AIGFP's counterparties would be permitted to terminate their contracts early.

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The actual amount of collateral that we would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that we could be required to make, depend on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade.

For a discussion of the effects of downgrades in the financial strength ratings of our insurance companies or our credit ratings, see Note 12 to the Consolidated Financial Statements and Part I, Item 1A. Risk Factors.

Regulation and Supervision

We are currently regulated by the Board of Governors of the Federal Reserve System (FRB) and subject to its examination, supervision and enforcement authority and reporting requirements as a savings and loan holding company (SLHC). In addition, under Dodd-Frank we may separately become subject to the examination, enforcement and supervisory authority of the FRB. In October 2012, we received a notice that we are under consideration by the Financial Stability Oversight Council created by Dodd-Frank for a proposed determination that we are a systemically important financial institution (SIFI). Changes mandated by Dodd-Frank include directing the FRB to promulgate minimum capital requirements for both SLHCs and SIFIs. See Item 1. Business Regulation and Item 1A. Risk Factors Regulation for further information.

Our insurance subsidiaries are subject to regulation and supervision by the states and jurisdictions in which they do business. In the United States, the NAIC has developed RBC Model Law requirements. The RBC formula is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. The statutory surplus of each of our U.S.-based life and property and casualty insurance subsidiaries exceeded minimum required RBC levels as of December 31, 2012. Our foreign insurance operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization. We comply with these requirements in each country.

To the extent that any of our insurance entities were to fall below prescribed levels of statutory surplus, it would be our intention to provide appropriate capital or other types of support to that entity, under formal support agreements, CMAs or otherwise. For additional details regarding CMAs that we have entered into with our insurance subsidiaries, see Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Property Casualty and Liquidity and Capital Resources of AIG Parent and Subsidiaries AIG Life and Retirement.

Dividend Restrictions

Payment of future dividends to our shareholders depends in part on the regulatory framework that will ultimately be applicable to us, including our status as an SLHC under Dodd-Frank and whether we are determined to be a SIFI. See Note 17 to the Consolidated Financial Statements for additional discussion of potential restrictions on dividend payments to common shareholders.

Dividend payments to AIG Parent by our insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to our domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. Foreign jurisdictions may restrict the ability of our foreign insurance subsidiaries to pay dividends, which may also have unfavorable income tax consequences. There are also various local restrictions limiting cash loans and advances to AIG Parent by our subsidiaries. See Note 20 to the Consolidated Financial Statements for additional discussion of restrictions on payments of dividends by AIG and its subsidiaries.

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Investments

OVERVIEW

Our investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the business model for each of the businesses: AIG Property Casualty, AIG Life and Retirement, and the Direct Investment book. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products. The majority of assets backing our insurance liabilities consist of intermediate and long duration fixed maturity securities.

Market Conditions

Our investments and investment strategies were affected by the following conditions in 2012:

- Central banks initiated actions intended to improve weakening economic conditions, including the European Central Bank's commitment to further bond purchases and the U.S. Federal Reserve's commitment to maintain the Federal Funds Rate in the zero to a quarter percent range. The Federal Reserve also committed to support the mortgage market via purchases of agency mortgage-backed securities, and extended "Operation Twist", a program of redeeming short-term U.S. Treasury securities and using the proceeds to buy longer-term U.S. Treasury securities with the objective of putting downward pressure on longer-term interest rates.

- Equity markets experienced positive returns.

- Bond yields remained low in the U.S., as evidenced by the 10-year U.S. Treasury rate ending the year at 1.76 percent.

- The U.S. dollar weakened during the year by 2 percent and 5 percent versus the Euro and British pound, respectively, and strengthened 13 percent versus the Yen.

Investment Strategies

At the local operating unit level, investment strategies are based on considerations that include the local market, general market conditions, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

- In the case of life insurance and retirement services companies, as well as in the DIB, our fundamental investment strategy is to match the duration characteristics of the liabilities with assets of comparable duration, to the extent practicable.

- Fixed maturity securities held by the domestic insurance companies included in AIG Property Casualty historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. To meet the current risk-return and tax objectives of AIG Property Casualty, cash flows from the investment portfolio and insurance operations are generally being reinvested by the domestic property and casualty companies in taxable instruments which meet the companies' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives.

Outside of the U.S., fixed maturity securities held by AIG Property Casualty companies consist primarily of intermediate duration high-grade securities generally denominated in the currencies of the countries in which we operate.

Investment Highlights

The following is an overview of investment activities during 2012:

Purchases of corporate debt securities continued to be the largest asset allocation of new investments.

We continued to make risk-weighted opportunistic investments in RMBS and other structured securities to improve yields and increase net investment income.

We purchased an aggregate of $7.1 billion of CDOs sold in the FRBNY auctions of ML III assets, and elected fair value option accounting treatment on those assets.

Blended investment yields on new AIG Life and Retirement investments were lower than blended rates on investments that were sold, matured or called. Base yields at AIG Property Casualty benefited from blended yields on new investments that were higher than the yields on investments that were sold, matured or called.

A continued low interest rate environment and narrowing spreads in many fixed income asset classes contributed to unrealized gains in the investment portfolio.

Other-than-temporary-impairments on structured securities decreased from 2011.

We disposed of our remaining interest in AIA, and our position in ML III was liquidated.

Credit Ratings

At December 31, 2012, approximately 88 percent of fixed maturity securities were held by our domestic entities. Approximately 17 percent of such securities were rated AAA by one or more of the principal rating agencies, and approximately 15 percent were rated below investment grade or not rated. Our investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspective for consideration in the internal analysis.

A significant portion of our foreign entities' fixed maturity securities portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available for some foreign issued securities. Our Credit Risk Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2012, approximately 18 percent of such investments were either rated AAA or, on the basis of our internal analysis, were equivalent from a credit standpoint to securities rated AAA, and approximately 3 percent were rated below investment grade or not rated at that date. Approximately 49 percent of the foreign entities' fixed maturity securities portfolio is comprised of sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

With respect to our fixed maturity investments, the credit ratings in the table below and in subsequent tables reflect: (a) a composite of the ratings of the three major rating agencies, or when agency ratings are not available, the rating assigned by the National Association of Insurance Commissioners (NAIC) Securities Valuations Office (SVO) (over 99 percent of total fixed maturity investments), or (b) our equivalent internal ratings when these investments have not been rated by any of the major rating agencies or the NAIC. The "Non-rated" category in those tables consists of fixed maturity securities that have not been rated by any of the major rating agencies, the NAIC or us, and for 2011, represents primarily our interest in ML III at December 31, 2011.

See Enterprise Risk Management herein for a discussion of credit risks associated with Investments.

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The following table presents the composite AIG credit ratings of our fixed maturity securities calculated on the basis of their fair value:

	Available for Sale		Trading		Total	
	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011	December 31, 2012	December 31, 2011
Rating:						
Other fixed maturity securities						
AAA	**10%**	13%	**75%**	89%	**12%**	15%
AA	**20**	25	**8**	1	**20**	24
A	**29**	26	**7**	6	**28**	26
BBB	**36**	32	**6**	2	**35**	31
Below investment grade	**5**	4	**3**	2	**4**	4
Non-rated			**1**		**1**	
Total	**100%**	100%	**100%**	100%	**100%**	100%
Mortgage backed, asset backed and collateralized						
AAA	**40%**	48%	**17%**	19%	**35%**	41%
AA	**6**	5	**18**	14	**9**	7
A	**10**	9	**6**	8	**9**	9
BBB	**7**	6	**5**	3	**6**	5
Below investment grade	**37**	32	**54**	22	**41**	29
Non-rated				34		9
Total	**100%**	100%	**100%**	100%	**100%**	100%
Total						
AAA	**16%**	19%	**36%**	41%	**17%**	21%
AA	**18**	21	**14**	10	**17**	20
A	**25**	24	**6**	8	**24**	22
BBB	**30**	27	**5**	2	**28**	25
Below investment grade	**11**	9	**38**	16	**13**	10
Non-rated			**1**	23	**1**	2
Total	**100%**	100%	**100%**	100%	**100%**	100%

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Investments by Segment

The following tables summarize the composition of AIG's investments by reportable segment:

	Reportable Segment				
(in millions)	AIG Property Casualty	AIG Life and Retirement	Aircraft Leasing	Other Operations	Total
December 31, 2012					
Fixed maturity securities:					
Bonds available for sale, at fair value	**$ 102,563**	**$ 163,550**	**$**	**$ 3,846**	**$ 269,959**
Bond trading securities, at fair value	**1,597**	**1,855**		**21,132**	**24,584**
Equity securities:					
Common and preferred stock available for sale, at fair value	**3,093**	**111**		**8**	**3,212**
Common and preferred stock trading, at fair value		**562**		**100**	**662**
Mortgage and other loans receivable, net of allowance	**712**	**17,089**		**1,681**	**19,482**
Other invested assets	**12,720**	**12,777**		**3,620**	**29,117**
Short-term investments	**7,935**	**7,495**		**13,378**	**28,808**
Total investments[(a)]	**128,620**	**203,439**		**43,765**	**375,824**
Cash	**649**	**297**		**205**	**1,151**
Total invested assets	**$ 129,269**	**$ 203,736**	**$**	**$ 43,970**	**$ 376,975**
December 31, 2011					
Fixed maturity securities:					
Bonds available for sale, at fair value	$ 103,831	$ 154,912	$	$ 5,238	$ 263,981
Bond trading securities, at fair value	88	1,583		22,693	24,364
Equity securities:					
Common and preferred stock available for sale, at fair value	2,895	208	1	520	3,624
Common and preferred stock trading, at fair value				125	125
Mortgage and other loans receivable, net of allowance	553	16,759	90	2,087	19,489
Flight equipment primarily under operating leases, net of accumulated depreciation			35,539		35,539
Other invested assets	12,279	12,560		15,905(b)	40,744
Short-term investments	4,660	3,318	1,910	12,684	22,572
Total investments[(a)]	124,306	189,340	37,540	59,252	410,438
Cash	673	463	65	273	1,474
Total invested assets	$ 124,979	$ 189,803	$ 37,605	$ 59,525	$ 411,912

(a) At December 31, 2012, approximately 88 percent and 12 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 90 percent and 10 percent, respectively, at December 31, 2011.

(b) Includes $12.4 billion of AIA ordinary shares at December 31, 2011.

AIG Property Casualty

In our property casualty business, the duration of liabilities for long-tail casualty lines is greater than other lines. As differentiated from the life insurance and retirement services companies, the focus is not on asset-liability matching, but on preservation of capital and growth of surplus.

Fixed income holdings of AIG Property Casualty domestic operations, with an average duration of 4.0 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns as well

as taxable municipal bonds, government bonds and agency and corporate securities. The majority of these high quality investments are rated A or higher based on composite ratings.

Fixed income assets held in AIG Property Casualty foreign operations are of high quality and short to intermediate duration, averaging 3.5 years.

While invested assets backing reserves are invested in conventional fixed income securities in AIG Property Casualty domestic operations, a modest portion of surplus is allocated to alternative investments, including private equity and hedge funds. Notwithstanding the current environment, these investments have provided a combination of added diversification and attractive long-term returns over time.

AIG Life and Retirement

With respect to AIG Life and Retirement, we use asset-liability management as a tool to determine the composition of the invested assets. Our objective is to maintain a matched asset-liability structure, although we may occasionally determine that it is economically advantageous to be temporarily in an unmatched position. To the extent that we have maintained a matched asset-liability structure, the economic effect of interest rate fluctuations is partially mitigated.

Our investment strategy for AIG Life and Retirement is to produce cash flows greater than maturing insurance liabilities. There exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

AIG Life and Retirement frequently reviews its interest rate assumptions and actively manages the crediting rates used for its new and in force business. Business strategies continue to evolve to maintain profitability of the overall business.

The investment of insurance cash flows and reinvestment of the proceeds of matured securities and coupons requires active management of investment yields while maintaining satisfactory investment quality and liquidity.

A number of guaranteed benefits, such as living benefits and guaranteed minimum death benefits, are offered on certain variable and indexed annuity products. The fair value of these benefits is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. We manage our exposure resulting from these long-term guarantees through reinsurance or capital market hedging instruments. We actively review underlying assumptions of policyholder behavior and persistency related to these guarantees. We have taken positions in certain derivative financial instruments in order to hedge the impact of changes in equity markets and interest rates on these benefit guarantees. We execute listed futures and options contracts on equity indexes to hedge certain guarantees of variable and indexed annuity products. We also enter into various types of futures and options contracts, primarily to hedge changes in value of certain guarantees of variable and indexed annuities due to fluctuations in interest rates. We use several instruments to hedge interest rate exposure, including listed futures on government securities, listed options on government securities and the purchase of government securities.

With respect to over-the-counter derivatives, we deal with highly rated counterparties and do not expect the counterparties to fail to meet their obligations under the contracts. We have controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties periodically. We generally use ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Fixed income holdings of AIG Life and Retirement, with an average duration of 6.3 years, are comprised of taxable corporate bonds, as well as municipal and government bonds, commercial mortgage loans, and agency and non-agency structured securities. The majority of these investments are held in the available for sale portfolio and are rated investment grade based on our composite ratings.

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Available-for-Sale Investments

The following table presents the fair value of our available-for-sale securities:

(in millions)	Fair Value at December 31, 2012	Fair Value at December 31, 2011
Bonds available for sale:		
U.S. government and government sponsored entities	$ 3,483	$ 6,078
Obligations of states, municipalities and political subdivisions	35,705	37,498
Non-U.S. governments	26,800	25,735
Corporate debt	151,112	144,818
Mortgage-backed, asset-backed and collateralized:		
RMBS	34,392	34,604
CMBS	10,134	7,946
CDO/ABS	8,333	7,302
Total mortgage-backed, asset-backed and collateralized	52,859	49,852
Total bonds available for sale*	269,959	263,981
Equity securities available for sale:		
Common stock	3,029	3,421
Preferred stock	78	143
Mutual funds	105	60
Total equity securities available for sale	3,212	3,624
Total	$ 273,171	$ 267,605

* At December 31, 2012 and December 31, 2011, bonds available for sale held by us that were below investment grade or not rated totaled $29.6 billion and $24.2 billion, respectively.

Investments in Municipal Bonds

At December 31, 2012, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax-backed bonds with 97 percent of the portfolio rated A or higher.

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The following table presents the fair values of our available for sale U.S. municipal bond portfolio by state and municipal bond type:

December 31, 2012 *(in millions)*	State General Obligation	Local General Obligation	Revenue	Total Fair Value
State:				
California	$ 674	$ 1,292	$ 3,301	$ 5,267
Texas	201	2,377	2,135	4,713
New York	46	833	3,706	4,585
Washington	717	278	831	1,826
Massachusetts	919		891	1,810
Illinois	159	671	710	1,540
Florida	510	9	1,017	1,536
Virginia	89	150	855	1,094
Arizona		162	820	982
Georgia	490	42	386	918
Ohio	215	150	525	890
Wisconsin	325	49	368	742
Pennsylvania	459	82	197	738
All other states	1,750	1,302	6,012	9,064
Total[(a)(b)]	$ 6,554	$ 7,397	$ 21,754	$ 35,705

(a) Excludes certain university and not- for- profit entities that issue their bonds in the corporate debt market. Includes industrial revenue bonds.

(b) Includes $7.9 billion of pre-refunded municipal bonds.

Investments in Corporate Debt Securities

The following table presents the industry categories of our available for sale corporate debt securities based on amortized cost:

Industry Category	December 31, 2012	December 31, 2011
Financial institutions:		
Money Center /Global Bank Groups	8%	9%
Regional banks other	1	1
Life insurance	3	4
Securities firms and other finance companies		
Insurance non-life	4	3
Regional banks North America	5	6
Other financial institutions	5	5
Utilities	16	16
Communications	8	8
Consumer noncyclical	12	11
Capital goods	6	6
Energy	7	7
Consumer cyclical	7	7
Other	18	17

Total*	**100%**	100%

* At December 31, 2012 and December 31, 2011, approximately 94 percent and 95 percent, respectively, of these investments were rated investment grade.

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Investments in RMBS

The following table presents our RMBS available for sale investments by year of vintage:

(in millions)		Fair Value at December 31, 2012		Fair Value at December 31, 2011
Total RMBS				
2012	$	1,630	$	
2011		7,545		9,247
2010		2,951		3,925
2009		378		620
2008		431		714
2007 and prior*		21,457		20,098
Total RMBS	$	34,392	$	34,604
Agency				
2012	$	1,395	$	
2011		5,498		7,005
2010		2,812		3,774
2009		321		549
2008		431		714
2007 and prior		3,117		4,315
Total Agency	$	13,574	$	16,357
Alt-A				
2010	$	53	$	64
2007 and prior		7,871		5,744
Total Alt-A	$	7,924	$	5,808
Subprime				
2007 and prior	$	2,151	$	1,456
Total Subprime	$	2,151	$	1,456
Prime non-agency				
2012	$	235	$	
2011		2,047		2,241
2010		86		88
2009		58		71
2007 and prior		7,910		8,194
Total Prime non-agency	$	10,336	$	10,594
Total Other housing related	$	407	$	389

* Includes approximately $10.9 billion of securities that were purchased at a significant discount to amortized cost commencing in the second quarter of 2011.

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The following table presents our RMBS available for sale investments by credit rating:

(in millions)		Fair Value at December 31, 2012	Fair Value at December 31, 2011
Rating:			
Total RMBS			
AAA	$	16,048	19,436
AA		795	979
A		411	409
BBB		744	773
Below investment grade[a]		16,283	12,999
Non-rated		111	8
Total RMBS[b]	$	34,392	34,604
Agency RMBS			
AAA	$	13,464	16,357
AA		110	
Total Agency	$	13,574	16,357
Alt-A RMBS			
AAA	$	57	126
AA		195	414
A		83	161
BBB		314	251
Below investment grade[a]		7,275	4,856
Non-rated			
Total Alt-A	$	7,924	5,808
Subprime RMBS			
AAA	$	38	105
AA		170	127
A		129	18
BBB		185	221
Below investment grade[a]		1,629	985
Non-rated			
Total Subprime	$	2,151	1,456
Prime non-agency			
AAA	$	2,487	2,850
AA		317	429
A		196	189
BBB		208	287
Below investment grade[a]		7,017	6,831
Non-rated		111	8
Total prime non-agency	$	10,336	10,594
Total Other housing related	$	407	389

(a) Commencing in the second quarter of 2011, we began purchasing certain RMBSs that had experienced deterioration in credit quality since their origination. See Note 7 to the Consolidated Financial Statements, Investments Purchased Credit Impaired (PCI) Securities, for additional discussion.

(b) The weighted average expected life was 6 years at both December 31, 2012 and December 31, 2011, respectively.

Our underwriting practices for investing in RMBS, other asset-backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction.

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Investments in CMBS

The following table presents our CMBS available for sale investments:

(in millions)	Fair Value at December 31, 2012	Fair Value at December 31, 2011
CMBS (traditional)	**$ 7,880**	$ 6,333
ReRemic/CRE CDO	**219**	261
Agency	**1,486**	1,290
Other	**549**	62
Total	**$ 10,134**	$ 7,946

The following table presents our CMBS available for sale investments by year of vintage:

(in millions)	Fair Value at December 31, 2012	Fair Value at December 31, 2011
Year:		
2012	**$ 1,427**	$
2011	**1,347**	1,423
2010	**807**	298
2009	**44**	42
2008	**161**	211
2007 and prior	**6,348**	5,972
Total	**$ 10,134**	$ 7,946

The following table presents our CMBS available for sale investments by credit rating:

(in millions)	Fair Value at December 31, 2012	Fair Value at December 31, 2011
Rating:		
AAA	**$ 4,278**	$ 3,693
AA	**1,591**	734
A	**827**	948
BBB	**1,266**	818
Below investment grade	**2,156**	1,740
Non-rated	**16**	13
Total	**$ 10,134**	$ 7,946

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The following table presents the percentage of our CMBS available for sale investments by geographic region based on amortized cost:

	December 31, 2012	December 31, 2011
Geographic region:		
New York	**16**%	15%
California	**9**	10
Texas	**6**	6
Florida	**4**	5
Virginia	**3**	3
New Jersey	**3**	3
Illinois	**3**	2
Pennsylvania	**2**	2
Nevada	**2**	2
Georgia	**2**	2
Massachusetts	**2**	2
Washington	**2**	2
All other*	**46**	46
Total	**100**%	100%

* Includes Non-U.S. locations.

The following table presents the percentage of our CMBS available for sale investments by industry based on amortized cost:

December 31,	2012	2011
Industry:		
Office	**27**%	28%
Multi-family*	**23**	26
Retail	**25**	25
Lodging	**13**	8
Industrial	**6**	6
Other	**6**	7
Total	**100**%	100%

* Includes Agency-backed CMBS.

The fair value of CMBS holdings remained stable throughout 2012. The majority of our investments in CMBS are in tranches that contain substantial protection features through collateral subordination. As indicated in the tables, downgrades have occurred on many CMBS holdings. The majority of CMBS holdings are traditional conduit transactions, broadly diversified across property types and geographical areas.

Investments in CDOs

The following table presents our CDO available for sale investments by collateral type:

(in millions)	Fair value at December 31, 2012	Fair value at December 31, 2011
Collateral Type:		
Bank loans (CLO)	**$ 2,579**	$ 1,756
Synthetic investment grade	**25**	76
Other	**424**	390
Subprime ABS	**10**	10
Total	**$ 3,038**	$ 2,232

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The following table presents our CDO available for sale investments by credit rating:

(in millions)	Fair Value at December 31, 2012	Fair Value at December 31, 2011
Rating:		
AAA	**$ 144**	$ 130
AA	**542**	299
A	**1,284**	745
BBB	**485**	467
Below investment grade	**583**	591
Total	**$ 3,038**	$ 2,232

Commercial Mortgage Loans

At December 31, 2012, we had direct commercial mortgage loan exposure of $13.8 billion. At that date, over 99 percent of the loans were current.

The following table presents the commercial mortgage loan exposure by location and class of loan based on amortized cost:

December 31, 2012 *(dollars in millions)*	Number of Loans	Class Apartments	Offices	Retails	Industrials	Hotels	Others	Total	Percent of Total
State:									
California	153	$ 119	$ 942	$ 286	$ 640	$ 394	$ 652	$ 3,033	22%
New York	85	268	1,320	176	98	101	120	2,083	15
New Jersey	57	477	283	302	8	19	65	1,154	8
Florida	93	52	175	255	99	20	231	832	6
Texas	58	37	294	154	208	101	32	826	6
Pennsylvania	57	48	99	171	119	17	13	467	3
Ohio	54	167	40	98	64	38	10	417	3
Colorado	19	11	198	1		97	58	365	3
Maryland	21	22	145	170	13	4	4	358	3
Virginia	25	38	186	50	10	17		301	2
Other states	333	359	1,253	1,010	397	345	465	3,829	28
Foreign	61	1					122	123	1
Total*	1,016	$ 1,599	$ 4,935	$ 2,673	$ 1,656	$ 1,153	$ 1,772	$ 13,788	100%

* Excludes portfolio valuation losses.

AIA Investment

We sold our remaining 33 percent interest in AIA ordinary shares for proceeds of $14.5 billion and a net gain of $2.1 billion through three sale transactions on March 7, September 11 and December 20, 2012.

See Note 7 to the Consolidated Financial Statements for further discussion.

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Impairments

The following table presents impairments by investment type:

Years Ended December 31, *(in millions)*	2012	2011	2010
Fixed maturity securities, available for sale	$ 723	$ 1,009	$ 2,337
Equity securities, available for sale	105	37	193
Private equity funds and hedge funds	339	234	509
Subtotal	$ 1,167	$ 1,280	$ 3,039
Life settlement contracts[(a)]	309	312	74
Aircraft trusts		168	
Alternative investments	9		
Real estate[(b)]	7	30	622
Total	$ 1,492	$ 1,790	$ 3,735

(a) Impairments of investments in Life settlement contracts are recorded in Other realized losses.

(b) Impairments of investments in Real estate are recorded in Other income.

Other-Than-Temporary Impairments

To determine other-than-temporary impairments, we use fundamental credit analyses of individual securities without regard to rating agency ratings. Based on this analysis, we expect to receive cash flows sufficient to cover the amortized cost of all below investment grade securities for which credit impairments were not recognized.

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The following tables present other-than-temporary impairment charges recorded in earnings on fixed maturity securities, equity securities, private equity funds and hedge funds.

Other-than-temporary impairment charges by reportable segment and impairment type:

(in millions)	Reportable Segment AIG Property Casualty	AIG Life and Retirement	Other Operations	Total
For the Year Ended December 31, 2012				
Impairment Type:				
Severity	**$ 35**	**$ 9**	**$**	**$ 44**
Change in intent	**4**	**20**	**38**	**62**
Foreign currency declines	**8**			**8**
Issuer-specific credit events	**330**	**691**	**27**	**1,048**
Adverse projected cash flows	**1**	**4**		**5**
Total	**$ 378**	**$ 724**	**$ 65**	**$ 1,167**
For the Year Ended December 31, 2011				
Impairment Type:				
Severity	$ 47	$ 4	$	$ 51
Change in intent	1	11		12
Foreign currency declines	32			32
Issuer-specific credit events	193	943	29	1,165
Adverse projected cash flows	1	19		20
Total	$ 274	$ 977	$ 29	$ 1,280
For the Year Ended December 31, 2010				
Impairment Type:				
Severity	$ 30	$ 14	$ 29	$ 73
Change in intent	389	34	18	441
Foreign currency declines	17		46	63
Issuer-specific credit events	141	1,906	410	2,457
Adverse projected cash flows		4	1	5
Total	$ 577	$ 1,958	$ 504	$ 3,039

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Other-than-temporary impairment charges by investment type and impairment type:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
For the Year Ended December 31, 2012						
Impairment Type:						
Severity	**$**	**$**	**$**	**$**	**$ 44**	**$ 44**
Change in intent	**4**			**34**	**24**	**62**
Foreign currency declines				**8**		**8**
Issuer-specific credit events	**433**	**7**	**208**	**24**	**376**	**1,048**
Adverse projected cash flows	**5**					**5**
Total	**$ 442**	**$ 7**	**$ 208**	**$ 66**	**$ 444**	**$ 1,167**
For the Year Ended December 31, 2011						
Impairment Type:						
Severity	$	$	$	$	$ 51	$ 51
Change in intent				7	5	12
Foreign currency declines				32		32
Issuer-specific credit events	769	20	150	11	215	1,165
Adverse projected cash flows	20					20
Total	$ 789	$ 20	$ 150	$ 50	$ 271	$ 1,280
For the Year Ended December 31, 2010						
Impairment Type:						
Severity	$	$	$	$	$ 73	$ 73
Change in intent	210		99	41	91	441
Foreign currency declines		5		57	1	63
Issuer-specific credit events	1,066	34	739	81	537	2,457
Adverse projected cash flows	5					5
Total	$ 1,281	$ 39	$ 838	$ 179	$ 702	$ 3,039

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

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Other-than-temporary impairment charges by investment type and credit rating:

(in millions)	RMBS	CDO/ABS	CMBS	Other Fixed Maturity	Equities/Other Invested Assets*	Total
For the Year Ended December 31, 2012						
Rating:						
AAA	**$**	**$**	**$**	**$ 2**	**$**	**$ 2**
AA	**10**					**10**
A		**2**		**4**		**6**
BBB						
Below investment grade	**432**	**5**	**208**	**26**		**671**
Non-rated				**34**	**444**	**478**
Total	**$ 442**	**$ 7**	**$ 208**	**$ 66**	**$ 444**	**$ 1,167**
For the Year Ended December 31, 2011						
Rating:						
AAA	$ 3	$	$	$ 9	$	$ 12
AA	24			10		34
A	7			15		22
BBB	6	5		1		12
Below investment grade	749	15	150	14		928
Non-rated				1	271	272
Total	$ 789	$ 20	$ 150	$ 50	$ 271	$ 1,280
For the Year Ended December 31, 2010						
Rating:						
AAA	$ 5	$	$	$ 10	$	$ 15
AA	20			3		23
A	2		13	14		29
BBB	47		41	10		98
Below investment grade	1,207	30	784	108		2,129
Non-rated		9		34	702	745
Total	$ 1,281	$ 39	$ 838	$ 179	$ 702	$ 3,039

* Includes other-than-temporary impairment charges on private equity funds, hedge funds and direct private equity investments.

We recorded other-than-temporary impairment charges in the years ended December 31, 2012 and 2011 related to:

- issuer-specific credit events;
- securities for which we have changed our intent from hold to sell;

- declines due to foreign exchange rates;
- adverse changes in estimated cash flows on certain structured securities;
- securities that experienced severe market valuation declines; and
- other impairments, including equity securities, private equity funds, hedge funds, direct private equity investments, aircraft trusts and investments in life settlement contracts.

There was no significant impact to our consolidated financial condition or results of operations from other-than-temporary impairment charges for any one single credit. Also, no individual other-than-temporary impairment charge exceeded 0.11 percent, 0.20 percent and 0.20 percent of total equity at December 31, 2012, 2011 or 2010, respectively.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign-exchange related, we generally prospectively accrete into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining life of the security. The accretion that was recognized for these securities in earnings was $915 million in 2012, and

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$542 million in 2011, and $401 million in 2010. For a discussion of AIG's other-than-temporary impairment accounting policy, see Note 7 to the Consolidated Financial Statements.

The following table shows the aging of the pre-tax unrealized losses of fixed maturity and equity securities, the extent to which the fair value is less than amortized cost or cost, and the number of respective items in each category:

December 31, 2012												
Aging[a]	Less Than or Equal to 20% of Cost[b]			Greater Than 20% to 50% of Cost[b]			Greater Than 50% of Cost[b]			Total		
(dollars in millions)	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss	Items[e]	Cost[c]	Unrealized Loss[d]	Items[e]
Investment grade bonds												
0 - 6 months	$ 10,865	$ 157	1,637	$	$		$	$		$ 10,865	$ 157	1,637
7 - 11 months	465	10	112							465	10	112
12 months or more	4,830	277	631	481	129	47	12	10	2	5,323	416	680
Total	$ 16,160	$ 444	2,380	$ 481	$ 129	47	$ 12	$ 10	2	$ 16,653	$ 583	2,429
Below investment grade bonds												
0 - 6 months	$ 904	$ 56	354	$ 122	$ 34	17	$	$		$ 1,026	$ 90	371
7 - 11 months	175	9	108	14	4	10	4	2	14	193	15	132
12 months or more	2,987	227	508	1,164	353	135	201	128	62	4,352	708	705
Total	$ 4,066	$ 292	970	$ 1,300	$ 391	162	$ 205	$ 130	76	$ 5,571	$ 813	1,208
Total bonds												
0 - 6 months	$ 11,769	$ 213	1,991	$ 122	$ 34	17	$	$		$ 11,891	$ 247	2,008
7 - 11 months	640	19	220	14	4	10	4	2	14	658	25	244
12 months or more	7,817	504	1,139	1,645	482	182	213	138	64	9,675	1,124	1,385
Total(e)	$ 20,226	$ 736	3,350	$ 1,781	$ 520	209	$ 217	$ 140	78	$ 22,224	$ 1,396	3,637

Equity securities												
0 - 11 months	$ 225	$ 18	151	$ 61	$ 18	43	$	$		$ 286	$ 36	194
12 months or more	17		2	2	1	2				19	1	4
Total	$ 242	$ 18	153	$ 63	$ 19	45	$	$		$ 305	$ 37	198

(a) Represents the number of consecutive months that fair value has been less than cost by any amount.

(b) Represents the percentage by which fair value is less than cost at December 31, 2012.

(c) For bonds, represents amortized cost.

(d) The effect on Net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will result in current decreases in the amortization of certain DAC.

(e) Item count is by CUSIP by subsidiary.

For 2012, net unrealized gains related to fixed maturity and equity securities increased by $10.4 billion primarily due to the decline in interest rates and narrowing of credit spreads.

As of December 31, 2012, the majority of our fixed maturity investments in an unrealized loss position of more than 50 percent for 12 months or more consisted of the unrealized loss of $138 million primarily related to CMBS and RMBS securities originally rated investment grade that are floating rate or that have low fixed coupons relative to current market yields. A total of 2 securities with an amortized cost of $12 million and a net unrealized loss of $10 million are still investment grade. As part of our credit evaluation procedures we consider the nature of both the specific securities and the market conditions for those securities. For most security types supported by real estate-related assets, current market yields continue to be higher than the yields at the time those securities were issued. In addition, for floating rate securities, persistently low LIBOR levels continue to make these securities less attractive to secondary purchasers of these assets.

We believe that these securities are trading at significant price discounts primarily due to the lack of demand for commercial and residential real estate collateral-based securities, low contractual coupons and interest rate spreads, and the deterioration in the level of collateral support due to real estate market conditions. Based on our analysis, and taking into account the level of subordination below these securities, we continue to believe that the expected cash flows from these securities will be sufficient to recover the amortized cost of our investment. We continue to monitor these positions for potential credit impairments that could result from further deterioration in commercial and residential real estate fundamentals.

See also Note 7 to the Consolidated Financial Statements for further discussion of our investment portfolio.

Enterprise Risk Management

At AIG, risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns. We consider risk management an integral part of managing our core businesses and a key element of our approach to corporate governance.

OVERVIEW

Enterprise Risk Management (ERM)

At AIG, we have an integrated process for managing risks throughout our organization in accordance with our firm-wide risk appetite. Our Board of Directors has oversight responsibility for the management of risk. Our Enterprise Risk Management (ERM) Department supervises and integrates the risk management functions in each of our business units, providing senior management with a consolidated view of the firm's major risk positions. Within each business unit, senior leaders and executives approve risk-taking policies and targeted risk tolerance within the framework provided by ERM. ERM supports our businesses and management in the embedding of enterprise risk management in all of our key day to day business processes and in identifying, assessing, quantifying, managing and mitigating the risks taken by us and our businesses.

Our ERM framework provides senior management with a consolidated view of our risk appetite and major risk positions.

Risk Governance Structure

Our risk governance fosters the development and maintenance of a risk and control culture that encompasses all significant risk categories. Accountability for the implementation and oversight of risk policies is aligned with individual corporate executives, with the risk committees receiving regular reports regarding compliance with each policy to support risk governance at our corporate level as well as in each business unit.

In each of our business units, senior leaders and executives approve risk-taking policies and targeted risk tolerance within the ERM framework while working with AIG ERM to mitigate risks across the firm.

Risk management is an integral part of how we manage our core businesses.

Our Board of Directors oversees the management of risk through its Finance and Risk Management Committee (the FRMC) and the Audit Committee. Those committees regularly interact with other committees of the Board. Our Executive Vice President (EVP) and Chief Risk Officer (CRO) reports to both the FRMC and AIG's Chief Executive Officer (CEO).

The Group Risk Committee (the GRC) is the senior management group charged with assessing all significant risk issues on a global basis in order to protect our financial strength, optimize our intrinsic value, and protect our reputation among key stakeholders. The GRC is chaired by our CRO. Its membership includes our CEO, EVP and Chief Financial Officer (CFO), EVP and General Counsel, and 12 other executives from across our corporate functions and business units. Our CRO reports periodically on behalf of the GRC to both the FRMC and the Audit Committee of the Board.

Management committees that support the GRC are described below. These committees are comprised of senior executives and experienced business representatives from a range of functions and business units throughout AIG and its subsidiaries. These committees are charged with identifying, analyzing and reviewing specific risk matters within their respective mandates.

Financial Risk Group (FRG): The FRG is responsible for the oversight of financial risks taken by AIG and its subsidiaries. Its mandate includes overseeing our aggregate credit, market, interest rate, liquidity and model risks, as well as asset-liability management, derivatives

activity, and foreign exchange transactions. Membership of the FRG includes our EVP Investments, EVP and Treasurer, as well as our EVP and CFO, and other senior executives from Finance and ERM. Our CRO serves as Chair of the FRG.

Transaction Approval and Business Practices Committee (TABPC): TABPC provides the primary corporate-level review function for all proposed transactions and business practices that are significant in size, complex in scope, or that present heightened legal, reputational, accounting or regulatory risks. Our EVP and Treasurer serves as TABPC Chair and additional members include our EVP and General Counsel, EVP and CRO, EVP and CFO, EVP Investments, and a senior executive from Finance.

Operational Risk Committee (ORC): This Committee is tasked with overview of the enterprise-wide identification, escalation and mitigation of risks that may arise from inadequate or failed internal processes, people, systems, or external events. The Committee approves AIG's Operational Risk Management (ORM) framework and related policies, which includes the risk and control self assessment (RCSA), Risk Events, Key Risk Indicators (KRIs) and Scenario Analysis. The Committee monitors the adequacy of ORM staffing and ensures applicable governance structures are established to provide oversight of operational risk at each Business Unit and Corporate Function. The ORC also reviews aggregate firm-wide operational risk reports. Our Chief Administrative Officer is Chair of the ORC and our Head of Operational Risk Management serves as ORC Secretary. Other ORC members include senior AIG executives with expertise in legal, compliance, technology, finance and operational risk, as well as business continuity management and the chief risk officers of our business units.

Business Unit Risk Committees: Each of our major insurance businesses has established a risk and capital committee (BU RCC) that serves as the senior management committee responsible for risk oversight at the individual business unit level. The BU RCCs are responsible for the identification, assessment and monitoring of all sources of risk within their respective portfolios. Specific responsibilities include setting risk tolerances, approving capital management strategies (including asset allocation and risk financing), insurance portfolio optimization, risk management policies and providing oversight of economic capital models. In addition to its BU RCC, each major insurance business has established subordinate committees which identify, assess and monitor the specific operational, transactional and financial risks inherent in its respective business. Together, the BU Risk Committees and AIG Risk Committees described above provide comprehensive risk oversight throughout the organization.

Risk oversight activities also continue to be coordinated with discontinued operations, such as ILFC, until pending sale transactions are closed.

Risk Appetite, Identification, and Measurement

ERM has developed a company-wide Risk Appetite Statement (RAS), which will be updated on at least an annual basis. By formally defining our risk appetite, we seek to integrate stakeholder interests, business goals and available financial resources through taking measured risks that are intended to generate repeatable, sustainable earnings and produce long-term value and stability.

The RAS articulates our risk-taking capacity by setting consolidated capital and liquidity tolerances as observed under expected and stressed business and economic conditions. RAS also reflects constraints on minimum capital positions for our insurance operations. These constraints inform the requirements for capital adequacy for individual businesses, based on capital assessments under rating agency, regulatory and other business needs. Consistent with our risk appetite, we have established risk tolerances that are reflected in our business planning and are integrated into the management of our operations. Risk tolerances cover insurance company capital ratios as well as metrics associated with AIG Parent resources, including consolidated company capital ratios and parent liquidity. Our GRC routinely reviews the level of risk taken by the consolidated organization in relation to established risk tolerances. A consolidated risk report is also presented to the FRMC by our CRO.

We employ various approaches to measure, monitor, and manage risk exposures, including the utilization of a variety of metrics and early warning indicators. We use a proprietary stress testing framework to measure our quantifiable risks. This framework is built on our existing ERM stress testing methodology for both insurance and non-insurance operations. The framework measures risk over multiple time horizons and under different levels of stress. We develop a range of stress scenarios based both on internal experience and regulatory guidance. The stress tests are intended to ensure that sufficient resources for our regulated subsidiaries and the consolidated company are available under both idiosyncratic and systemic market stress conditions.

The stress testing framework assesses our aggregate exposure to our most significant financial and insurance risks, including the risk in each of our regulated subsidiaries in relation to its statutory capital needs under stress, risks inherent in our unregulated subsidiaries, and risks to AIG consolidated capital. Using our stress testing methodology, we evaluate the capital and earnings impact of potential stresses in relation to the relevant capital constraint of each business operation. We use this information to determine the liquidity resources AIG Parent needs to support insurance operations, contingent liquidity required from AIG Parent under stressed scenarios for non-insurance operations, and capital resources required to maintain consolidated company target capitalization levels.

To complement our risk policies and governance framework, we also employ an enterprise-wide vulnerability identification (VID) process. The process is designed to ensure that potential new or emerging risks are brought to the attention of senior management. On a bi-annual basis, our VID process solicits this information from a broad range of senior managers across the organization. This process enables vulnerabilities that are not captured by other risk management practices to be identified and reported to senior management on a regular basis.

We evaluate and manage risk in material topics as shown below. These topics are discussed in more detail in the following pages:

Credit Risk	Liquidity Risk	Insurance Operations Risks
Market Risk	Operational Risk	Global Capital Markets Risks

Credit Risk Management

Overview

Credit risk is defined as the risk that our customers or counterparties are unable or unwilling to repay their contractual obligations when they become due. Credit risk may also result from a downgrade of counterparty's credit ratings.

We devote considerable resources to managing our direct and indirect credit exposures. These exposures may arise from fixed income investments, equity securities, deposits, reverse repurchase agreements and repurchase agreements, commercial paper, corporate and consumer loans, leases, reinsurance recoverables, counterparty risk arising from derivatives activities, collateral extended to counterparties, insurance risk cessions to third parties, financial guarantees and letters of credit.

Our credit risks are managed at the corporate level within ERM. ERM is assisted by credit functions headed by seasoned credit officers in all the business units, whose primary role is to assure appropriate credit risk management relative to our credit risk parameters. Our Chief Credit Officer (CCO) and credit executives are primarily responsible for the development and maintenance of credit risk policies and procedures.

Responsibilities of the CCO and credit executives include:

- developing and implementing our company-wide credit policies;
- approving delegated credit authorities to our credit executives;

managing the approval process for requests for credit limits, program limits and credit transactions above authorities or where concentrations of risk may exist or be incurred;

aggregating globally all credit exposure data by counterparty, country, sector and industry and reporting risk concentrations regularly to and reviewing with senior management;

administering regular portfolio credit reviews of investment, derivative and credit-incurring business units and recommending corrective actions where required;

conducting credit research on countries, sectors and asset classes where risk concentrations may exist;

developing methodologies for quantification and assessment of credit risks, including the establishment and maintenance of our internal risk rating process; and

approving appropriate credit reserves, credit-related other-than-temporary impairments and corresponding methodologies in all credit portfolios.

We monitor and control our company-wide credit risk concentrations and attempt to avoid unwanted or excessive risk accumulations, whether funded or unfunded. To minimize the level of credit risk in some circumstances, we may require third-party guarantees, reinsurance or collateral, such as letters of credit and trust collateral accounts. We treat these guarantees, reinsurance recoverables, letters of credit and trust collateral accounts as credit exposure and include them in our risk concentration exposure data. We identify our aggregate credit exposures to our underlying counterparty risks.

Largest Credit Concentrations

Our single largest credit exposure, the U.S. Government, was 25 percent of Total equity at December 31, 2012 compared to 30 percent at December 31, 2011. Exposure to the U.S. Government primarily includes credit exposure related to U.S. Treasury and government agency securities and to direct and guaranteed exposures to U.S. government-sponsored entities, primarily the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) based upon their U.S. Government conservatorship. The reduction in exposure was primarily related to U.S. government-sponsored entities.

Based on our internal risk ratings, at December 31, 2012, our largest below investment grade-rated credit exposure, apart from ILFC leasing arrangements secured by aircraft with airlines having below investment grade ratings, was related to a non-financial corporate counterparty and that exposure was 0.6 percent of Total equity, compared to 0.5 percent at December 31, 2011.

Government Credit Concentrations (non-U.S.)

Our total direct and guaranteed credit exposure to non-U.S. governments is $22.5 billion at December 31, 2012, compared to $26.2 billion in December 31, 2011. Our single largest concentration was to the government of Japan in the amount of $8.1 billion at December 31, 2012. Most of these securities were held in the investment portfolios of our Japanese insurance operations.

The following table presents our aggregate (gross and net) credit exposures to non-U.S. governments:

(in millions)	December 31, 2012	December 31, 2011
Japan	**$ 8,109**	$ 9,205
Canada	**2,718**	3,153
Germany	**1,446**	1,854
France	**1,207**	1,157
China	**926**	132
United Kingdom	**816**	1,615
Australia	**601**	879
Mexico	**552**	507
Netherlands	**442**	442
Russia	**340**	293
Other	**5,350**	6,934
Total	**$ 22,507**	$ 26,171

Financial Institution Concentrations

Our single largest industry credit exposure in 2012 was to the global financial institutions sector as a whole, which includes banks and finance companies, securities firms, and insurance and reinsurance companies, many of which can be highly correlated at times of market stress. As of December 31, 2012, credit exposure to this sector was $85.5 billion, or 84 percent of Total equity compared to 106 percent at December 31, 2011.

At December 31, 2012:

$80.6 billion, or 94 percent, of these global financial institution credit exposures were considered investment grade based on our internal ratings.

$4.9 billion, or 6 percent, were considered non-investment grade. Most of the non-investment grade exposure was to financial institutions in countries that we believe are not of investment grade quality. Aggregate credit exposure to the ten largest below investment grade-rated financial institutions was $2.1 billion.

Our aggregate credit exposure to fixed maturity securities of the financial institution sector amounted to $34.4 billion.

Short-term bank deposit placements, reverse repurchase agreements, repurchase agreements and commercial paper issued by financial institutions (primarily commercial banks), operating account balances with banks and bank-issued commercial letters of credit supporting insurance credit exposures were $20.4 billion, or 24 percent of the total global financial institution credit exposure.

The remaining credit exposures to this sector were primarily related to reinsurance recoverables, collateral extended to counterparties mostly pursuant to derivative transactions, derivatives, and captive fronting risk management programs for these financial institutions.

European Concentrations

We actively monitor our European credit exposures, especially those exposures to issuers in the Euro-Zone periphery. We use various stress assumptions to identify issuers and securities warranting review by senior management and to determine the need for mitigating actions. As a mitigating action, we typically decide not to renew maturing exposures or, when the opportunity presents itself, to sell or to tender securities. To date, we have not actively used credit default protection. We periodically evaluate the financial condition of issuers and adjust internal risk ratings as warranted.

The result of these continuing reviews has led us to believe that our combined credit risk exposures to sovereign governments, financial institutions and non-financial corporations in the Euro-Zone are manageable risks given the type and size of exposure and the credit quality and size of the issuers.

The following table presents our aggregate United Kingdom and European credit exposures (excluding ILFC) by major sector:

	December 31, 2012					December 31, 2011
(in millions)	Sovereign	Financial Institution	Non-Financial Corporates	Structured Products/ Other[(a)]	Total	Total
Euro-Zone countries:						
France	$ 1,207	$ 2,535	$ 6,728	$ 63	$ 10,533	$ 8,612
Germany	1,446	3,675	3,879	248	9,248	14,696
Netherlands	442	4,205	2,295	1,391	8,333	8,650
Spain	146	682	2,197	1,042	4,067	4,909
Italy	96	348	2,168	236	2,848	2,816
Belgium	132	209	833		1,174	1,062
Ireland		98	858	62	1,018	1,644
Luxembourg		24	607	35	666	613
Austria	157	168	198		523	557

Finland		138		32		262				432		378
Other Euro-Zone		26		22		245		13		306		253
Total Euro-Zone	$	3,790	$	11,998	$	20,270	$	3,090	$	39,148	$	44,190
Remainder of Europe												
United Kingdom	$	816	$	9,557	$	15,802	$	4,197	$	30,372	$	29,052
Switzerland		67		4,521		2,702				7,290		7,670
Sweden		195		2,934		514				3,643		5,584
Other remainder of Europe		1,098		1,659		1,715		1,140		5,612		5,492
Total remainder of Europe	$	2,176	$	18,671	$	20,733	$	5,337	$	46,917	$	47,798
Total	$	5,966	$	30,669	$	41,003	$	8,427	$	86,065	$	91,988

(a) Other represents mortgage guaranty insurance ($1.3 billion), primarily in Spain ($941 million) and Italy ($188 million).

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Aggregate credit exposure to European governments totaled $6.0 billion at December 31, 2012, compared to $7.6 billion at December 31, 2011. Many of the European governments' ratings have been downgraded by one or more of the major rating agencies, occurring mostly in countries in the Euro-Zone periphery (Spain, Italy and Portugal) where our government credit exposures totaled $245 million at December 31, 2012. The downgrades primarily reflect large government budget deficits, rising government debt-to-GDP ratios and large financing requirements of these countries, which have led to difficult financing conditions. These credit exposures primarily included available-for-sale and trading securities (at fair value) issued by these governments. At December 31, 2012, we had no direct or guaranteed credit exposure to the governments of Greece or Ireland.

Our exposure to European financial institutions at December 31, 2012 included $20.2 billion of credit exposures to European banks, of which $18.7 billion were considered investment grade based on our internal ratings. Aggregate below investment grade rated credit exposures to European banks were $1.4 billion. Our credit exposures to banks domiciled in the Euro-Zone countries totaled $8.0 billion at December 31, 2012, of which $4.4 billion were fixed maturity securities. Credit exposures to banks based in the five countries of the Euro-Zone periphery (Spain, Italy, Ireland, Greece, and Portugal) totaled $993 million, of which $707 million were fixed maturity securities. These credit exposures were primarily to the largest banks in Spain and Italy. Credit exposures to banks based in France totaled $1.5 billion at December 31, 2012, of which $833 million were fixed maturity securities. Our credit exposures were predominantly to the largest banks in these countries.

In addition, our exposure at December 31, 2012 to European financial institutions included $10.5 billion of aggregate credit exposure to non-bank institutions, mostly insurers and reinsurers, with $7.6 billion, or 73 percent, of credit exposure representing reinsurance recoverable balances. Reinsurance recoverables were primarily to highly rated reinsurers based in Switzerland, the United Kingdom and Germany. $1.3 billion of the aggregate credit exposure at December 31, 2012 to non-banks was fixed maturity securities, of which 94 percent were considered investment grade based on our internal ratings.

Of the $19.3 billion of non-financial institution corporate exposure to Euro-Zone countries at December 31, 2012, 93 percent was to fixed maturity securities ($11.0 billion) and insurance-related products ($7.0 billion), with the majority of the insurance exposures being captive fronting programs ($3.0 billion), trade credit insurance ($1.9 billion), and surety bonds ($1.5 billion). France's exposure of $6.6 billion at December 31, 2012 represented the largest single non-financial corporate country exposure within the Euro-Zone, of which $2.6 billion were fixed maturity securities. Approximately two-thirds of the French exposures were to issuers in the utilities, oil and gas, and telecommunications industries. Euro-Zone periphery non-financial institution corporate exposures ($5.0 billion) at December 31, 2012 were heavily weighted towards large multinational corporations or issuers in relatively stable industries, such as regulated utilities (25 percent), telecommunications (17 percent), and oil and gas (13 percent).

Of the $6.1 billion at December 31, 2012 of United Kingdom and European structured product exposures (largely consisting of residential mortgage-backed, commercial mortgage-backed and other asset-backed securities), United Kingdom structured products accounted for 69 percent, while the Netherlands and Germany comprised 23 percent and 2 percent, respectively. Structured product exposures to the Euro-Zone periphery accounted for 4 percent of the total. Approximately 89 percent of the United Kingdom and European structured products exposures were rated A or better at December 31, 2012 based on external rating agency ratings.

In addition, we had commercial real estate-related net equity investments in Europe totaling $497 million at December 31, 2012 and related unfunded commitments of $105 million.

The following table presents our aggregate United Kingdom and European credit exposures (excluding ILFC) by product type:

	December 31, 2012						December 31, 2011
(in millions)	Fixed Maturity Securities[(a)]	Cash and Short-Term Investments[(b)]	Insurance Credit Exposures[(c)]	Reinsurance Recoverables	Other[(d)]	Total	Total
Euro-Zone countries:							
France	$ 4,834	$ 422	$ 3,349	$ 590	$ 1,338	$ 10,533	$ 8,612
Germany	4,655	633	1,976	1,755	229	9,248	14,696
Netherlands	5,817	56	1,745	619	96	8,333	8,650
Spain	1,872	135	2,041	18	1	4,067	4,909
Italy	1,616	2	1,151	59	20	2,848	2,816
Belgium	796	1	369	4	4	1,174	1,062
Ireland	784	61	172		1	1,018	1,644
Luxembourg	307	3	356	1		667	613
Austria	316	7	197	2	1	523	557
Finland	313	13	104	2		432	378
Other Euro-Zone	140	10	151	1	3	305	253
Total Euro-Zone	$ 21,450	$ 1,343	$ 11,611	$ 3,051	$ 1,693	$ 39,148	$ 44,190
Remainder of Europe							
United Kingdom	$ 15,600	$ 1,822	$ 8,814	$ 2,189	$ 1,947	$ 30,372	$ 29,052
Switzerland	3,011	448	1,060	2,767	4	7,290	7,670
Sweden	1,550	1,804	286	3		3,643	5,584
Other remainder of Europe	3,228	613	1,310	90	371	5,612	5,492
Total remainder of Europe	$ 23,389	$ 4,687	$ 11,470	$ 5,049	$ 2,322	$ 46,917	$ 47,798
Total	$ 44,839	$ 6,030	$ 23,081	$ 8,100	$ 4,015	$ 86,065	$ 91,988

(a) Fixed maturity securities primarily includes available-for-sale and trading securities reported at fair value of $41.4 billion ($41.4 billion amortized cost), and $3.4 billion ($3.4 billion amortized cost), respectively.

(b) Cash and short-term investments include bank deposit placements ($3.8 billion), collateral posted to counterparties against structured products ($1.9 billion), securities purchased under agreements to resell ($187 million), and operating accounts ($115 million).

(c) Insurance Credit Exposures primarily consist of captive fronting management programs ($10.7 billion), trade credit insurance ($6.2 billion), and surety bonds ($2.1 billion) and commercial letters of credit supporting insurance credit exposures ($794 million).

(d) Other primarily consists of derivative transactions reported at fair value.

At December 31, 2012, approximately 86 percent of fixed maturity securities in the United Kingdom and European exposures were considered investment grade based on our internal ratings. European financial institution fixed maturity securities exposure was $10.2 billion, of which $1.1 billion were covered bonds (debt securities secured by a pool of financial assets sufficient to cover any bondholder claims and that have full

recourse to the issuing bank). $4.4 billion of fixed maturity securities were issued by banks domiciled in the Euro-Zone countries. Our subordinated debt holdings and Tier 1 and preference share securities in these banks totaled $901 million and $312 million, respectively, at December 31, 2012. These exposures were predominantly to the largest banks in those countries.

Other Credit Concentrations

We have a risk concentration in the U.S. municipal sector, primarily through the investment portfolios of our insurance companies. A majority of these securities were held in available-for-sale portfolios of our domestic property and casualty insurance companies. See Investments Available for Sale Investments herein for further details. We had $464 million of additional exposure to the municipal sector outside of our insurance company portfolios at December 31, 2012, compared to $892 million at December 31, 2011. These exposures consisted of derivatives and trading securities (at fair value), and exposure related to other insurance and financial services operations.

We have a risk concentration in the residential mortgage sector in the form of non-agency RMBS, CDO of RMBS as well as our mortgage guaranty insurance business. See Investments Available for Sale Investments herein for further details on RMBS and CDO investments. The net risk-in-force for UGC was $33.6 billion at December 31, 2012, of which exposure in the United States was $30.4 billion.

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We also have a risk concentration in the commercial real estate sector in the form of non-agency CMBS, CDO of CMBS as well as commercial mortgage whole loans. See Investments Available for Sale Investments and Investments Commercial Mortgage Loans herein for further details.

We also monitor our aggregate cross-border exposures by country and region. Cross-border exposure is defined as an underlying risk that is taken within a country or jurisdiction other than the country or jurisdiction in which an AIG business unit taking the risk is domiciled. These cross-border exposures include both aggregated cross-border credit exposures to unrelated third parties and cross-border investments in our own international subsidiaries. Five countries had cross-border exposures in excess of 10 percent of Total equity at December 31, 2012 compared to six countries at December 31, 2011. Based on our internal risk ratings, at December 31, 2012, three countries were rated AAA and two were rated AA. The two largest cross-border exposures were to the United Kingdom and Bermuda.

We regularly review concentration reports in the categories listed above as well as credit trends by risk ratings and credit spreads. We periodically adjust limits and review exposures for risk mitigation to provide reasonable assurance that we do not incur excessive levels of credit risk and that our credit risk profile is properly calibrated across business units.

Market Risk Management

Market risk is defined as the potential loss arising from adverse fluctuations in interest rates, foreign currencies, equity and commodity prices, and their levels of volatility. Market risk includes credit spread risk, the potential loss arising from adverse fluctuations in credit spreads of securities or counterparties.

We are exposed to market risks, primarily within our insurance and capital markets businesses. In our insurance operations, market risk results primarily from potential mismatches in our asset-liability exposures, rather than speculative positioning. Specifically, our life insurance and retirement businesses collect premiums or deposits from policyholders and invest the proceeds in predominantly long-term, fixed maturity securities. We earn a spread between the asset yield and the cost payable to policyholders. We manage the business so that the cash flows from invested assets are sufficient to meet policyholder obligations when they become due, without the need to sell assets prematurely into a potentially distressed market. In periods of severe market volatility, depressed and illiquid fair values on otherwise performing investments diminish shareholders' equity even without actual credit event related losses.

Our market exposures can be categorized as follows:

Benchmark interest rates. Benchmark interest rates are also known as risk-free interest rates and are associated with either the government/treasury yield curve or the swap curve. The fair value of our significant fixed maturity securities portfolio changes as benchmark interest rates change.

Credit spread or risk premium. Credit spread risk is the potential for loss due to a change in an instrument's risk premium or yield relative to that of a comparable duration, default-free instrument.

Equity and alternative investment prices. We are exposed to equity and alternative investment prices affecting a variety of instruments. These include direct investments in common stock and mutual funds, minimum benefit guarantees embedded in the structure of certain variable annuity and variable life insurance products and other equity-like investments, such as hedge funds and private equity funds, private equity investments, commercial real estate and real estate funds.

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Foreign currency exchange rates. We are a globally diversified enterprise with significant income, assets and liabilities denominated in, and significant capital deployed in, a variety of currencies.

We use a number of measures and approaches to measure and quantify our market risk exposure, including:

Duration/key rate duration. Duration is the measure of the sensitivities of a fixed-income instrument to the changes in the benchmark yield curve. Key rate duration measures sensitivities to the movement at a given term point on the yield curve.

Scenario analysis. Scenario analysis uses historical, hypothetical, or forward-looking macroeconomic scenarios to assess and report exposures. Examples of hypothetical scenarios include a 100 basis point parallel shift in the yield curve or a 10 percent immediate and simultaneous decrease in world-wide equity markets.

Stress testing. Stress testing is a special form of scenario analysis in which the scenarios are designed to lead to a material adverse outcome. Examples of such scenarios include the stock market crash of October 1987 or the widening of yields or spread of RMBS or CMBS during 2008.

VaR. VaR is a summary statistical measure that uses the estimated volatility and correlation of market factors, and a management-determined level of confidence, to estimate how frequently a portfolio of risk exposures could be expected to lose at least a specified amount.

Insurance Operations Portfolio Sensitivities

The following table provides estimates of our sensitivity to changes in yield curves, equity prices and foreign currency exchange rates:

	Exposure			Effect	
(dollars in millions)	December 31, 2012	December 31, 2011*	Sensitivity Factor	December 31, 2012	December 31, 2011
Yield sensitive assets	$ 305,809	$ 326,200	100 bps parallel increase in all yield curves	$ (16,005)	$ (15,800)
Equity and alternative investments exposure	$ 27,131	$ 39,000	20% decline in stock prices and value of alternative investments	$ (5,426)	$ (7,800)
Foreign currency exchange rates net exposure	$ 9,106	$ 5,900	10% depreciation of all foreign currency exchange rates against the U.S. dollar	$ (911)	$ (590)

Exposures to yield curve movements include fixed maturity securities, loans, finance receivables and short-term investments, but exclude consolidated separate account assets. Total yield-sensitive assets decreased 6.2 percent or approximately $20.4 billion compared to 2011, primarily due to a net decrease in fixed income securities and other fixed assets of $15.6 billion, and a decrease in cash equivalents of $4.8 billion.

Exposures to equity and alternative investment prices include investments in common stock, preferred stocks, mutual funds, hedge funds, private equity funds, commercial real estate and real estate funds, but exclude consolidated separate account assets. Total exposure in these areas decreased 30.3 percent or approximately $11.8 billion in 2012 compared to 2011. This was primarily due to a decrease of $12.4 billion related to our sale of AIA equity securities as well as decreases in mutual fund values of $129 million and other equity investments of $18 million. The

decrease was partially offset by increases in other common equity securities of $125 million, partnership values of $197 million and real estate investments of $397 million.

Exposures to foreign currency exchange rates reflect our consolidated non-U.S. dollar net capital investments on a GAAP basis. Foreign currency exchange rates net exposure increased 53.7 percent or $3.2 billion in 2012 compared to 2011. This was primarily due to an increase in British pound exposure of $1.7 billion as a result of AIG Europe's foreign currency exchange hedging and investment strategy, an increase in market value of fixed maturity securities of $188 million as well as unrealized investment appreciation and positive results from AIG Europe Ltd operations of $99 million. Other increases included: changes in Canadian-dollar denominated unearned premium reserves of

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$378 million and a net increase of Canadian-dollar exposure of $92 million due to unrealized investment appreciation and positive results from operations; Euro exposure as a result of a reduction in euro-denominated debt outstanding of $231 million, additional purchases of the AIRE real estate investment vehicle of $109 million as well as unrealized investment appreciation and positive results from operations at AIG Europe SA of $147 million; and a net increase across currencies of $258 million.

For illustrative purposes, we modeled our sensitivities based on a 100 basis point increase in yield curves, a 20 percent decline in equities and alternative assets, and a 10 percent depreciation of all foreign currency exchange rates against the U.S. dollar. This should not be taken as a prediction, but only as a demonstration of the potential effects of such events.

The sensitivity factors utilized for 2012 and presented above were selected based on historical data from 1992 to 2012, as follows (see the table below):

- a 100 basis point parallel shift in the yield curve is consistent with a one standard deviation movement of the benchmark ten-year treasury yield;
- a 20 percent drop for equity and alternative investments is broadly consistent with a one standard deviation movement in the S&P 500; and
- a 10 percent depreciation of foreign currency exchange rates is consistent with a one standard deviation movement in the U.S. dollar (USD)/Japanese Yen (JPY) exchange rate.

	Period	Standard Deviation	Suggested 2012 Scenario	2012 Scenario as a Multiple of Standard Deviation	2012 Change/ Return	2012 as a Multiple of Standard Deviation	Original 2011 Scenario (based on Standard Deviation for 1990-2011 Period)
10-Year Treasury	1992-2012	0.01	0.01	0.99		0.11	0.01
S&P 500	1992-2012	0.19	0.20	1.07	0.13	0.72	0.20
USD/JPY	1992-2012	0.11	0.10	0.88	(0.11)	1.00	0.10

Liquidity Risk Management

Liquidity risk is defined as the risk that our financial condition will be adversely affected by the inability or perceived inability to meet our short-term cash, collateral or other financial obligations.

The failure to appropriately manage liquidity risk can result in reduced operating flexibility, increased costs, and reputational harm. Because liquidity is critically important, our liquidity governance includes a number of liquidity and funding policies and monitoring tools to address both AIG-specific, broader industry and market related liquidity events.

Sources of Liquidity risk can include, but are not limited to:

- financial market movements significant changes in interest rates can provide incentives for policyholders to surrender their policies. Changes in markets can impact collateral posting requirements or create difficulty to liquidate assets at reasonable values to meet liquidity needs due to unfavorable market conditions, inadequate market depth, or other investors seeking to sell the same or similar assets;

- potential reputational events or credit downgrade changes can have an impact on policyholder cancellations and withdrawals or impact collateral posting requirements; and

- catastrophic events, including natural and man-made disasters, can increase policyholder claims

The principal objective of ERM's liquidity risk framework is to protect AIG's liquidity position and identify a diversity of funding sources available to meet actual and contingent liabilities during both normal and stress periods.

We have structured our consolidated risk target to maintain a minimum liquidity buffer. AIG Parent liquidity risk tolerance levels are established for base and stress scenarios over a two-year time horizon designed to ensure that funding needs are met under varying market conditions. If we project that we will breach the tolerance, we will assess and determine the appropriate liquidity management actions. However, the market conditions in effect at that time may not permit us to achieve an increase in liquidity sources or a reduction in liquidity requirements.

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Additionally, each business unit is responsible for managing liquidity within a framework designed for the measurement and monitoring of liquidity risks inherent to the business. Current cash and liquidity positions are reviewed for changes and against minimum liquidity levels. Future cash inflows and outflows are tracked through cash flow forecasting. If the business unit projects a breach of the minimum liquidity levels, the amount of required liquidity resources will be identified and we will determine any actions to be taken. Business unit level key indicators are assessed to provide advance warning of potential liquidity risks.

Operational Risk Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, systems, or from external events. Operational risk includes legal risk and reputational harm.

Operational risk is inherent in each of our business units and corporate functions. It may extend beyond financial losses, including errors, fraudulent acts, business interruptions, inappropriate behavior of employees, or vendors that do not perform in accordance with agreed upon terms.

Our Operational Risk Management (ORM) function, which supports AIG's ORC has the responsibility to provide an aggregate view of our operational risk profile. AIG ORM oversees our Operational Risk policy and framework, which includes risk identification, measurement, monitoring and reporting.

Each Business Unit is primarily responsible for managing its operational risks and implementing the components of the operational risk management program. In addition, certain control functions have been assigned accountability for enterprise-wide risk management oversight for their respective areas. These control functions include: Sarbanes-Oxley (SOX), Business Continuity Management (BCM), Information Technology Security Risk, Compliance, and Vendor Management. Senior business operational risk executives report to their respective business unit chief risk officer and to the Head of our ORM. This reporting structure enables a close alignment with the businesses while ensuring consistent implementation of operational risk management practices.

A strong operational risk management program facilitates the identification and mitigation of operational risk issues. In order to accomplish this, our operational risk management program is designed to:

- pro-actively address potential operational risk issues;
- create transparency at all levels of the organization; and
- assign clear ownership and accountability for addressing identified issues.

As part of the ORM framework, we use a risk and control self assessment (RCSA) process to identify key operational risks and evaluate the effectiveness of existing controls to mitigate those risks. Corrective action plans are developed to address identified issues. Businesses are accountable for tracking and resolving these issues. A standard RCSA approach is also followed firm-wide for certain key risk processes (for example, SOX, IT Security Risk, Compliance, Business Continuity Management and Vendor Management).

Operational risk management reporting to senior management and operational risk governance committees provides awareness of operational risk exposures, identifies key risks and facilitates management decision making. Reporting includes RCSA information such as operational risk events, self-assessment results and the status of issue resolution to senior management.

Insurance Operations Risks

Except as described above, we manage our business risk oversight activities through our insurance operations.

Our insurance businesses are conducted on a global basis and expose us to a wide variety of risks with different time horizons. We manage these risks throughout the organization, both centrally and locally, through a number of procedures:

- pre-launch approval of product design, development and distribution;
- underwriting approval processes and authorities;

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- exposure limits with ongoing monitoring;
- modeling and reporting of aggregations and limit concentrations at multiple levels (policy, line of business, product group, country, individual/group, correlation and catastrophic risk events);
- compliance with financial reporting and capital and solvency targets;
- use of reinsurance, both internal and third-party; and
- review and establishment of reserves.

We closely manage insurance risk by monitoring and controlling the nature and geographic location of the risks in each line of business underwritten, the terms and conditions of the underwriting and the premiums we charge for taking on the risk. We analyze concentrations of risk using various modeling techniques, including both probability distributions (stochastic) and single-point estimates (deterministic) approaches.

Our major categories of insurance risks are:

- **Property and Casualty (AIG Property Casualty)** risks covered include property, casualty, fidelity/surety, accident and health, aviation and management liability. We manage risks in the general insurance segment through aggregations and limitations of concentrations at multiple levels: policy, line of business, geography, industry and legal entity.
- **Domestic Life Insurance & Retirement Service (AIG Life and Retirement)** risks include mortality and morbidity in the insurance-oriented products and insufficient cash flows to cover contract liabilities in the retirement savings-oriented products. We manage risks through product design, sound medical underwriting, external traditional reinsurance programs and external catastrophe reinsurance programs.
- **Mortgage Guaranty (United Guaranty Corporation)** We manage risks in the mortgage insurance business through geographic location of the insured properties, the relative economic conditions in the local housing markets, credit attributes of the borrowers, and the loan amount relative to the value of the respective collateral.

We purchase reinsurance for our insurance operations. Reinsurance facilitates insurance risk management (retention, volatility, concentrations) and capital planning. We may purchase reinsurance on a pooled basis. Pooling of our reinsurance risks enables us to purchase reinsurance more efficiently at a consolidated level, manage global counterparty risk and relationships and manage global catastrophe risks, both for AIG Property Casualty and AIG Life and Retirement.

AIG Property Casualty Key Insurance Risks

A primary goal in managing our AIG Property Casualty operations is to achieve an acceptable return on equity. To achieve this goal, we must be disciplined in risk selection, premium adequacy, and appropriate terms and conditions to cover the risk accepted.

We manage insurance risks through risk review and selection processes, exposure limitations, exclusions, deductibles, self-insured retentions, coverage limits and reinsurance. This management is supported by sound underwriting practices, pricing procedures and the use of actuarial analysis to help determine overall adequacy of provisions for insurance. Underwriting practices and pricing procedures incorporate historical experience, current regulation and judicial decisions as well as proposed or anticipated regulatory changes.

For AIG Property Casualty, insurance risks primarily emanate from the following:

Unpaid Loss and Loss Expense Reserves The potential inadequacy of the liabilities we establish for unpaid losses and loss expenses is a key risk faced by AIG Property Casualty. There is significant uncertainty in factors that may drive the ultimate development of losses compared to the estimates of losses and loss expenses. We manage this uncertainty through internal controls and oversight of the loss reserve setting process, as well as reviews by external experts. See Item 1 Business A review of Liability for unpaid claims and claims adjustment expense herein for further details.

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Underwriting The potential inadequacy of premium charged for risks underwritten in our portfolios can impact AIG Property Casualty's ability to achieve an underwriting profit. We develop pricing based on our estimates of losses and expenses, but factors such as market pressures and the inherent uncertainty and complexity in estimating losses may result in premiums that are inadequate to generate underwriting profit.

Catastrophe Exposure Our business is exposed to various catastrophic events in which multiple losses can occur and affect multiple lines of business in any calendar year. Natural disasters, such as hurricanes, earthquakes and other catastrophes, have the potential to adversely affect our operating results. Other risks, such as a man-made catastrophes or pandemic disease, could also adversely affect our business and operating results to the extent they are covered by our insurance products.

Reinsurance Since we use reinsurance to limit our losses, we are exposed to risks associated with reinsurance including the unrecoverability of expected payments from reinsurers either due to an inability or unwillingness to pay, contracts do not respond as we intended, or that actual reinsurance coverage is different than anticipated.

Catastrophe Exposures

To control catastrophe exposure, we use a combination of techniques, including setting key business unit limits based on an aggregate PML, monitoring and modeling accumulated exposures, and purchasing catastrophe reinsurance to supplement our other reinsurance protections. The majority of policies exposed to catastrophic events are one-year contracts allowing us to quickly adjust our exposure to catastrophic events if climate changes or other events increase the frequency or severity of catastrophes.

We use industry recognized models and other tools to evaluate catastrophic events and assess the probability and magnitude of such events. We periodically monitor the exposure risks of our worldwide AIG Property Casualty operations and adjust the models accordingly.

The following is an overview of modeled losses for AIG Property Casualty exposure associated with the more significant natural perils. The modeled results assume that all reinsurers fulfill their obligations to AIG in accordance with their terms.

AIG Property Casualty utilizes industry recognized catastrophe models. The use of different methodologies and assumptions could materially change the projected losses. Therefore, these modeled losses may not be comparable to estimates made by other companies. These estimates are inherently uncertain and may not reflect our maximum exposures to these events. It is highly likely that our losses will vary, perhaps significantly, from these estimates.

The modeled results provided in the table below were based on the Aggregate Exceedance Probability (AEP) losses which represent total property, workers' compensation, and A&H losses that may occur in any single year from one or more natural events. The values provided were based on 100-year return period losses, which have a one percent likelihood of being exceeded in any single year. The A&H data include exposures for United States and Japan earthquakes. These exposures represent the largest share of A&H exposures to earthquakes. A&H losses were modeled using April 2010 data. The property exposures were modeled with data as of September 2012. All reinsurance program structures, domestic and international, reflect the reinsurance programs in place as of January 1, 2013. Losses include loss adjustment expenses and the net values include reinstatement premiums.

At December 31, 2012 *(in millions)*	**Gross**	**Net of 2013 Reinsurance**	**Net of 2013 Reinsurance, After Tax**	**Percent of Total Equity**
Natural Peril:				
Earthquake	$ 5,884	$ 3,766	$ 2,448	2.48%
Tropical Cyclone*	$ 6,190	$ 3,546	$ 2,305	2.34%

* Includes hurricanes, typhoons and European windstorms.

Gross earthquake and tropical cyclone modeled losses decreased $926 million and $2.3 billion, respectively, compared to 2011, while net losses decreased $335 million and $1.7 billion, respectively, compared to 2011. Changes in both gross and net losses are primarily due to underwriting decisions to actively manage catastrophe exposure in the United States.

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In addition to the aggregate return period loss, we evaluate potential single event earthquake and hurricane losses. The single events utilized are a subset of potential events identified and utilized by Lloyd's (see *Lloyd's Realistic Disaster Scenarios, Scenario Specifications, January 2013*) and referred to as Realistic Disaster Scenarios (RDS).

The purpose of this type of analysis is to provide a frame of reference and context for the model results. The specific events used for this analysis do not necessarily represent the worst case loss that we could incur from this type of an event in these regions. The losses associated with the RDS are included in the following table.

Single-event modeled property and workers' compensation losses and loss adjustment expenses to AIG's worldwide portfolio of risk for key geographic areas are shown below.

At December 31, 2012 *(in millions)*	Gross[(a)]	Net of 2013 Reinsurance[(b)]
Natural Peril:		
Northeast Hurricane	$ 3,706	$ 1,721
Gulf Coast Hurricane	$ 3,703	$ 1,857
Los Angeles Earthquake	$ 4,987	$ 2,886
San Francisco Earthquake	$ 5,425	$ 2,977
Miami Hurricane	$ 3,275	$ 1,093
Japanese Earthquake	$ 1,542	$ 968
European Windstorm	$ 802	$ 483
Japanese Typhoon	$ 1,125	$ 577

(a) After the application of policy limits and deductibles.

(b) Calculated using the AIG reinsurance program in effect as at January 1, 2013, including reinstatement premiums. AIG's reinsurance program includes industry loss warranty (ILW) contracts under which there is basis risk between AIG's losses and the total industry loss. The net of reinsurance amount in the table above includes a positive impact from these ILWs, which may not be indicative of actual experience.

We also monitor key international property risks utilizing industry recognized natural catastrophe models. Based on the occurrence exceedance probabilities, the 100-year return period loss for Japanese Earthquake is $1.1 billion gross and $885 million net; the 100-year return period loss for European Windstorm is $575 million gross and $503 million net; and the 100-year return period loss for Japanese Typhoon is $1.7 billion gross and $842 million net.

ACTUAL RESULTS IN ANY PERIOD ARE LIKELY TO VARY, PERHAPS MATERIALLY, FROM THE MODELED SCENARIOS. THE OCCURRENCE OF ONE OR MORE SEVERE EVENTS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR FINANCIAL CONDITION, RESULTS OF OPERATIONS AND LIQUIDITY. See also Item 1A. Risk Factors Reserves and Exposures for additional information.

Terrorism

We actively monitor terrorism risk and strive to control exposure to loss from terrorist attack by limiting the aggregate accumulation insurance that is underwritten in defined target locations. We use modeling to provide projections of Probable Maximum Loss (PML) by target location based upon the actual exposures of our policyholders.

We also share our exposures to terrorism risks under the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). TRIPRA covers terrorist attacks in the United States only and excludes, as specified by applicable law, certain commercial lines of business as well as A&H, group life and personal lines. In 2012 and beginning January 1, 2013, our deductible under TRIPRA was approximately $3.0 billion and $2.8 billion, respectively, with a 15 percent coinsurance retention of certified terrorism losses in excess of the deductible for each period.

We offer terrorism coverage in many other countries through various insurance products and participate in country terrorism pools when applicable. International terrorism exposure is managed through active aggregation control and targeted reinsurance purchases for lines of

business such as commercial property, political risk, aviation and A&H.

Reinsurance Recoverables

AIG's reinsurance recoverable assets are comprised of:

- Paid losses recoverable balances due from reinsurers for losses and loss expenses paid by our subsidiaries and billed, but not yet collected.

- Ceded loss reserves ultimate ceded reserves for losses and loss expenses, including reserves for claims reported but not yet paid and estimates for IBNR.

- Ceded reserves for unearned premiums.

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At December 31, 2012, total reinsurance recoverable assets were $25.6 billion. These assets include general reinsurance paid losses recoverable of $1.3 billion, ceded loss reserves of $19.2 billion including reserves for incurred but not reported (IBNR) claims, and ceded reserves for unearned premiums of $3.6 billion, as well as life reinsurance recoverables of $1.5 billion. The methods used to estimate IBNR and to establish the resulting ultimate losses involve projecting the frequency and severity of losses over multiple years. These methods are continually reviewed and updated by management. Any adjustments are reflected in income. We believe that the amount recorded for ceded loss reserves at December 31, 2012 reflect a reasonable estimate of the ultimate losses recoverable. Actual losses may, however, differ from the reserves currently ceded.

The Reinsurance Credit Department (RCD) conducts periodic detailed assessments of the financial strength and condition of current and potential reinsurers, both foreign and domestic. The RCD monitors both the financial condition of reinsurers as well as the total reinsurance recoverable ceded to reinsurers, and set limits with regard to the amount and type or exposure we are willing to take with reinsurers. As part of these assessments, we attempt to identify whether a reinsurer is appropriately licensed, assess its financial capacity and liquidity; and evaluate the local economic and financial environment in which a foreign reinsurer operates. The RCD reviews the nature of the risks ceded and the need for measures, including collateral to mitigate credit risk. For example, in our treaty reinsurance contracts, we frequently include provisions that require a reinsurer to post collateral or use other measures to reduce exposure when a referenced event occurs. Furthermore, we limit our unsecured exposure to reinsurers through the use of credit triggers such as insurer financial strength rating downgrades, declines in regulatory capital, or relevant risk-based capital (RBC) ratios fall below certain levels. We also set maximum limits for reinsurance recoverable exposure, which in some cases is the recoverable amount plus an estimate of the maximum potential exposure from unexpected events for a reinsurer. In addition, credit executives within ERM review reinsurer exposures and credit limits and approve reinsurer credit limits above specified levels. Finally, even where we conclude that uncollateralized credit risk is acceptable, we require collateral from active reinsurance counterparties where it is necessary for our subsidiaries to recognize the reinsurance recoverable assets for statutory accounting purposes. At December 31, 2012, we held $8.6 billion of collateral, in the form of funds withheld, securities in reinsurance trust accounts and/or irrevocable letters of credit, in support of reinsurance recoverable assets from unaffiliated reinsurers. We believe that no exposure to a single reinsurer represents an inappropriate concentration of risk to AIG, nor is our business substantially dependent upon any single reinsurance contract.

The following table presents information for each reinsurer representing in excess of five percent of our total reinsurance recoverable assets:

At December 31, 2012 *(in millions)*	**S&P Rating**[(a)]	**A.M. Best Rating**[(a)]	**Gross Reinsurance Assets**	**Percent of Reinsurance Assets**[(b)]	**Collateral Held**[(c)]	**Uncollateralized Reinsurance Assets**
Reinsurer:						
Berkshire Hathaway Group of Companies	AA+	A++	$ 2,185[(d)]	8.5%	$ 1,648	$ 537
Munich Reinsurance Group of Companies	AA-	A+	$ 1,771	6.9%	$ 813	$ 958
Swiss Reinsurance Group of Companies	AA-	A+	$ 1,727	6.8%	$ 565	$ 1,162

(a) The financial strength ratings reflect the ratings of the various reinsurance subsidiaries of the companies listed as of February 6, 2013.

(b) Total reinsurance assets include both Property Casualty and Life and Retirement reinsurance recoverable.

(c) Excludes collateral held in excess of applicable treaty balances.

(d) Includes $1.6 billion recoverable under the 2011 transaction pursuant to which a large portion of AIG Property Casualty's net domestic asbestos liabilities were transferred to NICO. Does not include reinsurance assets ceded to other reinsurers for which NICO has assumed the collection risk. See Liability for Unpaid Claims and Claim Adjustment Expenses Transfer of Domestic Asbestos Liabilities.

The estimation of reinsurance recoverables involves a significant amount of judgment, particularly for asbestos exposures, due to their long-tail nature. We assess the collectability of its reinsurance recoverable balances through detailed reviews of the underlying nature of the reinsurance balance, including:

paid and unpaid recoverable;

whether the balance is in dispute or a legal collection status;

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- whether the reinsurer is financially troubled (i.e., liquidated, insolvent, in receivership or otherwise subject to formal or informal regulatory restriction);

- whether collateral and collateral arrangements exist; and

- the credit quality of the underlying reinsurer.

We record adjustments to reflect the results of the detailed review through an allowance for uncollectable reinsurance. At December 31, 2012, the allowance for estimated unrecoverable reinsurance was $338 million. At December 31, 2012, we had no significant general reinsurance recoverables due from any individual reinsurer that was financially troubled. In the current environment of weaker economic conditions and strained financial markets, certain reinsurers are reporting losses and could be subject to rating downgrades. Our reinsurance recoverable exposures are primarily to the regulated subsidiaries of such companies which are subject to minimum regulatory capital requirements. The RCD, in conjunction with the credit executives within ERM, reviews these developments, monitors compliance with credit triggers that may require the reinsurer to post collateral, and will seek to use other appropriate means to mitigate any material risks arising from these developments. See Note 9 to the Consolidated Financial Statements for additional information on reinsurance.

AIG Life and Retirement Key Insurance Risks

For AIG Life and Retirement, the primary risks are the following:

- **Pricing risk** represents the potential exposure to loss if actual policy experience emerges adversely in comparison to the assumptions made in product pricing. These assumptions include investment results, mortality, morbidity, surrenders, other observed policyholder behavior and expenses;

- **Investment risk** represents the exposure to loss if the cash flows from the invested assets are less than required to meet the obligations of the expected policy and contract liabilities and the necessary return on investments;

- **Interest rate risk** represents the exposure to loss due to the sensitivity of the liabilities and assets to changes in interest rates; and

- **Equity market risk** represents the potential exposure to higher claim costs for guaranteed benefits associated with variable annuities and the potential reduction in expected fee revenue.

AIG Life and Retirement manages these risks through product design, exposure limitations and active management of the relationships between assets and liabilities. The emergence of significant adverse experience would require an adjustment to DAC and benefit reserves which could have a material adverse effect on our consolidated results of operations for a particular period. For a further discussion of this risk, see Item 1A. Risk Factors Business and Operations.

AIG Life and Retirement companies generally limit their maximum underwriting exposure on life insurance of a single life to $15 million or less of coverage. In certain circumstances, this is achieved by using yearly renewable term reinsurance. For the AIG Life and Retirement companies, the reinsurance programs provide risk mitigation per life for individuals and group and for catastrophic risk events.

United Guaranty Corporation Key Insurance Risks

For United Guaranty Corporation (UGC), risks emanate primarily from the following:

Residential Housing Market risk represents the potential exposure to loss due to borrower default on a first-lien residential mortgage; the primary drivers of this risk are home price depreciation, changes in the unemployment rate, changes in mortgage rates, and a borrower's willingness to pay.

Pricing risk represents the potential exposure to loss if actual policy experience emerges adversely in comparison to the assumptions made in product pricing. This may be related to adverse economic conditions, prepayment of policies, investment results, and expenses;

UGC manages the quality of the loans it insures through use of a proprietary risk quality index. UGC uses this index to determine an insurability threshold as well as to manage the risk distribution of its new business. Along with traditional mortgage underwriting variables, UGC's risk-based pricing model uses rating factors such as geography and the quality of a lender's origination process to establish premium rates.

UGC's risk appetite statement establishes various concentration limits on the business UGC insures (for example, geography), and defines underwriting characteristics for which UGC will not insure loans.

Global Capital Markets

GCM actively manages its exposures to limit potential economic losses, and in doing so, GCM must continually manage a variety of exposures including credit, market, liquidity, operational and legal risks. The senior management of AIG defines the policies and establishes general operating parameters for GCM's operations. Our senior management has established various oversight committees to regularly monitor various financial market, operational and credit risks related to GCM's operations. The senior management of GCM reports the results of its operations to and reviews future strategies with AIG's senior management.

GCM Derivative Transactions

A counterparty may default on any obligation to us, including a derivative contract. Credit risk is a consequence of extending credit and/or carrying trading and investment positions. Credit risk exists for a derivative contract when that contract has a positive fair value to AIG. The maximum potential exposure will increase or decrease during the life of the derivative commitments as a function of maturity and market conditions. To help manage this risk, GCM's credit department operates within the guidelines set by the credit function within ERM. Transactions that fall outside these pre-established guidelines require the specific approval of the ERM. It is also AIG's policy to record credit valuation adjustments for potential counterparty default when necessary.

In addition, GCM utilizes various credit enhancements, including letters of credit, guarantees, collateral, credit triggers, credit derivatives, margin agreements and subordination to reduce the credit risk relating to its outstanding financial derivative transactions. GCM requires credit enhancements in connection with specific transactions based on, among other things, the creditworthiness of the counterparties, and the transaction's size and maturity. Furthermore, GCM generally seeks to enter into agreements that have the benefit of set-off and close-out netting provisions. These provisions provide that, in the case of an early termination of a transaction, GCM can set off its receivables from a counterparty against its payables to the same counterparty arising out of all covered transactions. As a result, where a legally enforceable netting agreement exists, the fair value of the transaction with the counterparty represents the net sum of estimated fair values.

The fair value of GCM's interest rate, currency, credit, commodity and equity swaps, options, swaptions, and forward commitments, futures, and forward contracts reported in Derivative assets, at fair value, was approximately $3.2 billion at December 31, 2012 and $3.9 billion at December 31, 2011. Where applicable, these amounts have been determined in accordance with the respective master netting agreements.

GCM evaluates the counterparty credit quality by reference to ratings from rating agencies or, where such ratings are not available, by internal analysis consistent with the risk rating policies of the ERM. In addition, GCM's credit approval process involves pre-set counterparty and country credit exposure limits subject to approval by the ERM and, for particularly credit-intensive transactions, requires approval from the ERM.

The following table presents the fair value of GCM's derivatives portfolios by counterparty credit rating:

At December 31, *(in millions)*	2012	2011
Rating:		
AAA	**$ 145**	$ 260
AA	**168**	58
A	**745**	1,218
BBB	**1,907**	2,081
Below investment grade	**199**	247
Total	**$ 3,164**	$ 3,864

See Critical Accounting Estimates below and Note 12 to the Consolidated Financial Statements for additional discussion related to derivative transactions.

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Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires the application of accounting policies that often involve a significant degree of judgment.

The accounting policies that we believe are most dependent on the application of estimates and assumptions, which are critical accounting estimates, are related to the determination of:

classification of ILFC as held for sale;

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

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

recoverability of assets including reinsurance assets;

estimated gross profits for investment-oriented products;

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.
See Note 1 to Consolidated Financial Statements for additional information.

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

The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

Classification of ILFC as Held for Sale

We report a business as held for sale when management has approved or received approval to sell the business and is committed to a formal plan, the business is available for immediate sale, the business is being actively marketed, the sale is anticipated to occur during the next 12 months, which may require significant judgment, and certain other specified criteria are met. A business classified as held for sale is recorded at the lower of its carrying amount or estimated fair value less cost to sell. If the carrying amount of the business exceeds its estimated fair value, a loss is recognized.

On December 9, 2012, we entered into a definitive agreement with Jumbo Acquisition Limited for the sale of 80.1 percent of the common stock of ILFC for approximately $4.23 billion in cash. Jumbo Acquisition Limited may elect to purchase an additional 9.9 percent of the common stock of ILFC for $522.5 million (the Option) by the later of March 15, 2013 and ten days after approval of the ILFC Transaction and the Option by the Committee on Foreign Investment in the United States. The transaction is subject to required regulatory approvals and other customary closing conditions. We determined ILFC met the criteria at December 31, 2012 for held for sale accounting and, consequently, we recorded a $4.4 billion after tax loss for the year ended December 31, 2012, which is reported in Income (loss) from discontinued operations in the Consolidated Statement of Operations.

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Recoverability of Net Deferred Tax Asset

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

We take a number of factors into account in order to reliably estimate future taxable income, so that we can determine the extent of our ability to realize net operating losses (NOLs), foreign tax credits (FTCs) and nonlife capital loss carryforwards. These factors include forecasts of future income for each of our businesses, actual and planned business and operational changes, which includes assumptions about future macroeconomic and AIG-specific conditions and events. We also subject the forecasts to stresses of key assumptions and evaluate the effect on tax attribute utilization. We also apply stresses to our assumptions about the effectiveness of relevant prudent and feasible tax planning strategies. Our income forecasts, coupled with our tax planning strategies and stressed scenarios, all resulted in sufficient taxable income to achieve realization of the tax attributes (other than life-insurance-business capital loss carryforwards) prior to their expiration.

For additional discussion of the recoverability of our net deferred tax asset, see Note 24 to the Consolidated Financial Statements.

U.S. Income Taxes on Earnings of Certain Foreign Subsidiaries

The U.S. federal income tax laws applicable to determining the amount of income taxes related to differences between the book carrying values and tax bases of subsidiaries are complex. Determining the amount also requires significant judgment and reliance on reasonable assumptions and estimates.

Liability for Unpaid Claims and Claims Adjustment Expenses (AIG Property Casualty and Mortgage Guaranty)

The estimate of Unpaid Claims and Claims Adjustment Expenses consists of several key judgments:

- the determination of the actuarial models used as the basis for these estimates;
- the relative weights given to these models by class;
- the underlying assumptions used in these models; and
- the determination of the appropriate groupings of similar classes and, in some cases, the segmentation of dissimilar claims within a class.

We use numerous assumptions in determining the best estimate of reserves for each class of business. The importance of any specific assumption can vary by both class of business and accident year. Because actual experience can differ from key assumptions used in establishing reserves, there is potential for significant variation in the development of loss reserves. This is particularly true for long-tail casualty classes of business such as excess casualty, asbestos, D&O, and primary or excess workers' compensation.

All of our methods to calculate net reserves include assumptions about estimated reinsurance recoveries and their collectability. Reinsurance collectability is evaluated independently of the reserving process and appropriate allowances for uncollectible reinsurance are established.

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In some of our estimation processes we rely on the claims department estimates of our case reserves as an input to our best estimate of the ultimate loss cost.

Overview of Loss Reserving Process and Methods

AIG Property Casualty loss reserves can generally be categorized into two distinct groups. Short-tail classes of business consist principally of property, personal lines and certain casualty classes. Long-tail casualty classes of business include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

Short-Tail Reserves

For operations writing short-tail coverages, such as property coverages, the process of recording quarterly loss reserves is generally geared toward maintaining an appropriate reserve for the outstanding exposure, rather than determining an expected loss ratio for current business. For example, the IBNR reserve required for a class of property business might be expected to approximate 20 percent of the latest year's earned premiums. This level of reserve would generally be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor would be adjusted to reflect changes in rate levels, loss reporting patterns, known exposure to unreported losses, or other factors affecting the particular class of business. For some classes, a loss development factor method may be used.

Long-Tail Reserves

Estimation of ultimate net losses and loss expenses (net losses) for long-tail casualty classes of business is a complex process and depends on a number of factors, including the class and volume of business, as well as estimates of the reinsurance recoverable. Experience in the more recent accident years shows limited statistical credibility in reported net losses on long-tail casualty classes of business. That is because a relatively low proportion of net incurred losses represent reported claims and expenses, and an even smaller percentage represent net losses paid. Therefore, IBNR constitutes a relatively high proportion of net losses.

To estimate net losses for long-tail casualty classes of business, we use a variety of actuarial methods and assumptions.

To estimate net losses for long-tail casualty classes of business, we use a variety of actuarial methods and assumptions and other analytical techniques as described below. A detailed reserve review is generally performed at least once per year to allow for comprehensive actuarial evaluation and collaboration with claims, underwriting, business unit management, risk management and senior management.

We generally make a number of actuarial assumptions in the review of reserves for each class of business.

For longer-tail classes of business, we generally make actuarial assumptions with respect to the following:

Loss cost trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.

Expected loss ratios for the latest accident year (i.e., accident year 2012 for the year-end 2012 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

Loss development factors which are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.

We record quarterly changes in loss reserves for each of AIG Property Casualty's classes of business. The overall change in our loss reserves is based on the sum of the changes for all classes of business. For most long-tail classes of business, the quarterly loss reserve changes are based on the estimated current loss ratio for each class of coverage less any amounts paid. Also, any change in estimated ultimate losses from prior accident years deemed to be necessary based on the results of our latest reserve studies or large loss analysis, either positive or negative, is reflected in the loss reserve for the current quarter.

Details of the Loss Reserving Process

The process of determining the current loss ratio for each class of business is based on a variety of factors. These include considerations such as: prior accident year and policy year loss ratios; rate changes; and changes in coverage, reinsurance, or mix of business. Other considerations include actual and anticipated changes in external factors such as trends in loss costs or in the legal and claims environment. The current loss ratio for each class of business is intended to represent our best estimate of the current loss ratio after reflecting all of the relevant factors. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business is changed to reflect the revised assumptions.

We conduct a comprehensive loss reserve review at least annually for each AIG Property Casualty subsidiary and class of business. The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In this process, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods for each business class. Additionally, they must determine the segmentation of data that will enable the most suitable test of reserve adequacy. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business provides an overall actuarial central estimate of the loss reserve for that class.

In 2012, the third party actuarial reviews covered the majority of reserves held for our US Commercial long-tail classes of business, the majority of our US Consumer classes of business and included several material international Commercial and Consumer classes of business. In addition we consulted with third party environmental litigation and engineering specialists, third party toxic tort claims professionals, third party clinical and public health specialists, third party workers' compensation claims adjusters and third party actuarial advisors to corroborate our conclusions.

In 2011 we significantly expanded the scope of our 2010 third-party actuarial reviews to cover a larger number of U.S. and international classes of business from the more complex reserves of long-tail classes of business. In 2010,

third-party actuarial reserve reviews were generally limited to certain U.S. long-tail lines of business and were concentrated in the fourth quarter of 2010. These detailed reviews are conducted for each class of business for each subsidiary, and consist of hundreds of individual analyses.

In determining the actual carried reserves, we consider both the internal actuarial central estimate and numerous other internal and external factors, including:

an assessment of economic conditions;

changes in the legal, regulatory, judicial and social environment;

changes in medical cost trends (inflation, intensity and utilization of medical services)

underlying policy pricing, terms and conditions including attachment points and policy limits;

claims handling processes and enhancements; and

third-party actuarial reviews that are periodically performed for key classes of business.

Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

Actuarial and Other Methods for Major Classes of Business

In testing the reserves for each class of business, our actuaries determine the most appropriate actuarial methods. This determination is based on a variety of factors including the nature of the claims associated with the class of business, such as the frequency or severity of the claims. Other factors considered include the loss development characteristics associated with the claims, the volume of claim data available for the applicable class, and the applicability of various actuarial methods to the class. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. For example, we write many unique subclasses of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subclass individually. However, for purposes of estimating the loss reserves for professional liability, we believe it is appropriate to combine the subclasses into larger groups to produce a greater degree of credibility in the claims experience. This determination of data segmentation and actuarial methods is carefully considered for each class of business. The segmentation and actuarial methods chosen are those which together are expected to produce the most robust estimate of the loss reserves.

The actuarial methods we use for most long-tail casualty classes of business include loss development methods, expected loss ratio methods, including "Bornhuetter Ferguson" methods described below, and frequency/severity models. Loss development methods utilize the actual loss development patterns from prior accident years to project the reported losses to an ultimate basis for subsequent accident years. Loss development methods generally are most appropriate for classes of business which exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the classes have similar development characteristics. For example, property exposures would generally not be combined into the same class as casualty exposures, and primary casualty exposures would generally not be combined into the same class as excess casualty exposures. We generally use expected loss ratio methods in cases where the reported loss data lacks sufficient credibility to utilize loss development methods, such as for new classes of business or for long-tail classes at early stages of loss development. Frequency/severity models may be used where sufficient frequency counts are available to apply such approaches.

Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the class of business to determine the loss reserves. For example, an expected loss ratio of 70 percent applied to an earned premium base of $10 million for a class of business would generate an ultimate loss estimate of $7 million. Subtracting any reported paid losses and loss expense would result in the indicated loss reserve for this class. Under the "Bornhuetter Ferguson" methods, the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a long-tail class of business for which only 10 percent of the losses are expected to be reported at the end of the accident year, the expected loss ratio would be applied to the 90 percent of the losses still unreported. The actual reported losses at the end of the accident year would be added to determine the total ultimate loss estimate for the accident year. Subtracting the reported paid

losses and loss expenses would result in the indicated loss reserve. In the example above, the expected loss ratio of 70 percent would be multiplied by

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90 percent. The result of 63 percent would be applied to the earned premium of $10 million resulting in an estimated unreported loss of $6.3 million. Actual reported losses would be added to arrive at the total ultimate losses. If the reported losses were $1 million, the ultimate loss estimate under the "Bornhuetter Ferguson" method would be $7.3 million versus the $7 million amount under the expected loss ratio method described above. Thus, the "Bornhuetter Ferguson" method gives partial credibility to the actual loss experience to date for the class of business. Loss development methods generally give full credibility to the reported loss experience to date. In the example above, loss development methods would typically indicate an ultimate loss estimate of $10 million, as the reported losses of $1 million would be estimated to reflect only 10 percent of the ultimate losses.

A key advantage of loss development methods is that they respond quickly to any actual changes in loss costs for the class of business. Therefore, if loss experience is unexpectedly deteriorating or improving, the loss development method gives full credibility to the changing experience. Expected loss ratio methods would be slower to respond to the change, as they would continue to give more weight to the expected loss ratio, until enough evidence emerged to modify the expected loss ratio to reflect the changing loss experience. On the other hand, loss development methods have the disadvantage of overreacting to changes in reported losses if the loss experience is not credible. For example, the presence or absence of large losses at the early stages of loss development could cause the loss development method to overreact to the favorable or unfavorable experience by assuming it will continue at later stages of development. In these instances, expected loss ratio methods such as "Bornhuetter Ferguson" have the advantage of recognizing large losses without extrapolating unusual large loss activity onto the unreported portion of the losses for the accident year.

Frequency/severity methods generally rely on the determination of an ultimate number of claims and an average severity for each claim for each accident year. Multiplying the estimated ultimate number of claims for each accident year by the expected average severity of each claim produces the estimated ultimate loss for the accident year. Frequency/severity methods generally require a sufficient volume of claims in order for the average severity to be predictable. Average severity for subsequent accident years is generally determined by applying an estimated annual loss cost trend to the estimated average claim severity from prior accident years. In certain cases, a structural approach may also be used to predict the ultimate loss cost. Frequency/severity methods have the advantage that ultimate claim counts can generally be estimated more quickly and accurately than can ultimate losses. Thus, if the average claim severity can be accurately estimated, these methods can more quickly respond to changes in loss experience than other methods. However, for average severity to be predictable, the class of business must consist of homogeneous types of claims for which loss severity trends from one year to the next are reasonably consistent. Generally these methods work best for high frequency, low severity classes of business such as personal auto.

Structural drivers analytics seek to explain the underlying drivers of frequency/severity. A structural drivers analysis of frequency/severity is particularly useful for understanding the key drivers of uncertainty in the ultimate loss cost. For example, for the excess workers' compensation class of business, we have attempted to corroborate our judgment by considering the impact on severity of the future propensity for deterioration of an injured worker's medical condition, the impact of price inflation on the various categories of medical expense and cost of living adjustments on indemnity benefits, the impact of injured worker mortality and claim specific settlement and loss mitigation strategies, etc., using the following:

- Claim by claim reviews to determine the stability and likelihood of settling an injured worker's indemnity and medical benefits the claim file review was facilitated by a third party expert experienced in workers' compensation claims;

- Analysis of the potential for future deterioration in medical condition unlikely to be picked up by a claim file review and associated with potentially costly medical procedures (i.e., increases in both utilization and intensity of medical care) over the course of the injured worker's lifetime;

- Analysis of the cost of medical price inflation for each category of medical spend (services and devices) and for cost of living adjustments in line with statutory requirements;

- Portfolio specific mortality level and mortality improvement assumptions based on a mortality study conducted for AIG's primary and excess workers' compensation portfolios and AIG's opinion of future longevity trends for the open reported cases;

Ground-up consideration of the reinsurance recoveries expected for the class of business for reported claims with extrapolation for unreported claims;

The effects of various runoff claims management strategies that have been developed by AIG's newly created run-off unit.

Overall, our loss reserve reviews for long-tail classes typically utilize a combination of both loss development and expected loss ratio methods, supplemented by structural drivers analysis of frequency/severity where available. Loss development methods are generally given more weight for accident years and classes of business where the loss experience is highly credible. Expected loss ratio methods are given more weight where the reported loss experience is less credible, or is driven more by large losses. Expected loss ratio methods require sufficient information to determine the appropriate expected loss ratio. This information generally includes the actual loss ratios for prior accident years, and rate changes as well as underwriting or other changes which would affect the loss ratio. Further, an estimate of the loss cost trend or loss ratio trend is required in order to allow for the effect of inflation and other factors which may increase or otherwise change the loss costs from one accident year to the next.

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims. This is due to inconsistent court decisions, as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies or have expanded theories of liability. In addition, reinsurance recoverable balances relating to asbestos and environmental loss reserves are subject to greater uncertainty due to the underlying age of the claim, underlying legal issues surrounding the nature of the coverage, and determination of proper policy period. For these reasons, these balances tend to be subject to increased levels of disputes and legal collection activity when actually billed. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

We continue to receive claims asserting injuries and damages from toxic waste, hazardous substances, and other environmental pollutants and alleged claims to cover the cleanup costs of hazardous waste dump sites, referred to collectively as environmental claims, and indemnity claims asserting injuries from asbestos. The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution-related damage. An absolute asbestos exclusion was also implemented. The current AIG Property Casualty Environmental policies that we specifically price and underwrite for environmental risks on a claims-made basis have been excluded from the analysis.

The majority of our exposures for asbestos and environmental claims are excess casualty coverages, not primary coverages. The litigation costs are treated in the same manner as indemnity amounts, with litigation expenses included within the limits of the liability we incur. Individual significant claim liabilities, where future litigation costs are reasonably determinable, are established on a case-by-case basis.

Reserve Estimation for Asbestos and Environmental Claims

Estimation of asbestos and environmental claims loss reserves is a subjective process. Reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors. The methods used to determine asbestos and environmental loss estimates and to establish the resulting reserves are continually reviewed and updated by management.

Various factors contribute to the complexity and difficulty in determining the future development of asbestos and environmental claims. Significant factors that influence the asbestos and environmental claims estimation process include court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties from liability. Future claims development also will be affected by the changes in Superfund and waste dump site coverage and liability issues.

If the asbestos and environmental reserves develop deficiently, resulting deficiencies could have an adverse effect on our future results of operations for an individual reporting period.

With respect to known environmental claims, we established over two decades ago a specialized environmental claims unit, which investigates and adjusts all such environmental claims. This unit evaluates environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, we generally evaluate exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques must be supplemented by subjective considerations, including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

The environmental claims unit also actively manages and pursues early resolution with respect to these claims in an attempt to mitigate its exposure to the unpredictable development of these claims. We attempt to mitigate our known long-tail environmental exposures through a combination of proactive claim-resolution techniques, including policy buybacks, complete environmental releases, compromise settlements, and, when appropriate, litigation.

Known asbestos claims are managed in a similar manner. Over two decades ago we established a specialized toxic tort claims unit, which historically investigated and adjusted all such asbestos claims. As part of the above mentioned NICO transaction, effective January 1, 2011, NICO assumed responsibility for claims handling related to the majority of AIG's domestic asbestos liabilities.

The following is a discussion of actuarial methods applied by major class of business:

Class of Business or Category and Actuarial Method	Application of Actuarial Method
Excess Casualty	
We generally use a combination of loss development methods and expected loss ratio methods for excess casualty classes. Frequency/severity methods are generally not used in isolation to determine ultimate loss costs as the vast majority of reported claims do not result in claim payment. (However, frequency/severity methods assist in the regular monitoring of the adequacy of carried reserves to support incurred but not reported claims). In addition, the average severity varies significantly from accident year to accident year due to large losses which characterize this class of business, as well as changing proportions of claims which do not result in a claim payment. In order to gain more stability in the projection, the claims amenable to loss development methods are analyzed in two layers: the layer capped at $10 million and the layer above $10 million. The expected loss ratio for the layer above $10 million is derived from the expected relationship between the layers, reflecting the attachment point and limit by accident year. In addition, we leverage case reserving based methodologies for complex claims/ latent exposures such as those involving toxic tort and other claims accumulations.	Expected loss ratio methods are generally used for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately for lead umbrella classes and for other excess classes, due to the relatively shorter tail for lead umbrella business. Automobile-related claims are generally reviewed separately from non-auto claims, due to the shorter-tail nature of the automobile-related claims. Claims relating to certain latent exposures such as construction defects or exhaustion of underlying product aggregate limits are reviewed separately due to the unique emergence patterns of losses relating to these claims. The expected loss ratios used for recent accident years are based on the projected ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified. During 2012, we also completed a third party review of certain insureds exposed to a specific class of toxic tort claims. That review considered the prior claims history for each insured account, AIG's exposed limits and the insured's role with the specific toxicant reviewed as well as a legal analysis of the exposures presented by these claims.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
D&O and Related Management Liability Classes of Business We generally use a combination of loss development methods and expected loss ratio methods for D&O and related management liability classes of business. Frequency/severity methods are generally not used in isolation for these classes as the overall losses are driven by large losses more than by claim frequency. Severity trends have varied significantly from accident year to accident year and care is required in analyzing these trends by claim type. We also give weight to claim department ground-up projections of ultimate loss on a claim by claim basis as these may be more predictive of ultimate loss values especially for older accident years.	Expected loss ratio methods are given more weight in the two most recent accident years, whereas loss development methods are given more weight in more mature accident years. For the year-end 2012 loss reserve review, claims projections for accident years 2011 and prior were used. These classes of business reflect claims made coverage, and losses are characterized by low frequency and high severity.
Workers' Compensation We generally use a combination of loss development methods and expected loss ratio methods for workers' compensation. We segment the data by state and industry class to the extent that meaningful differences are determined to exist.	Expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. We historically have been a leading writer of workers' compensation, and thus have sufficient volume of claims experience to use development methods. We generally segregate California business from other business in evaluating workers' compensation reserves. In 2012, we segmented out New York from the other states to reflect its different development pattern and changing percentage of the mix by state. We also revised our assumptions to reflect changes in our claims management activities. Certain classes of workers' compensation, such as construction, are also evaluated separately. Additionally, we write a number of very large accounts which include workers' compensation coverage. These accounts are generally priced by our actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be used to record the initial estimated loss reserves for these accounts.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
Excess Workers' Compensation We historically have used a combination of loss development methods and expected loss ratio methods for excess workers' compensation. For the year-end 2012 loss reserve review, our actuaries supplemented the methods used historically by applying a structural drivers approach to inform their judgment of the ultimate loss costs for open reported claims from accident years 2003 and prior (representing approximately 95% of all open reported claims) and used the refined analysis to inform their judgment of the ultimate loss cost for claims that have not yet been reported using a frequency/severity approach for these accident years.	Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. The class is highly sensitive to small changes in assumptions in the rate of medical inflation or the longevity of injured workers, for example which can have a significant effect on the ultimate reserve estimate. Claims estimates for this line also are highly sensitive to: the assumed future rate of inflation and other economic conditions in the United States; changes in the legal, regulatory, judicial and social environment; the expected impact of recently enacted health care reform on workers' compensation costs; underlying policy pricing, terms and conditions; claims settlement trends that can materially alter the mix and ultimate cost of claims; changes in claims reporting and management practices of insureds and their third-party administrators; the cost of new and additional treatment specialties, such as "pain management"; the propensity for severely injured workers' medical conditions to deteriorate in the future; changes in injured worker longevity; and territorial experience differences (across states and within regions in a state).

Expected loss ratio methods are given the greater weight for the more recent accident years. For the year-end 2012 loss reserve review, the structural drivers approach which was applied to open reported claims from accident years 2003 and prior, was deemed to be most suitable for informing our judgment of the ultimate loss cost for injured workers whose medical conditions had largely stabilized (i.e., at least 9 to 10 years have elapsed since the date of injury). The reserve for unreported claims is approximately 41 percent of the total estimated reserve requirement for accident years 2003 and prior. The reserve for accident years 2004 and subsequent was determined using a Bornhuetter Ferguson expected loss ratio method and constitute approximately 13 percent of the total reserve requirements for this class of business.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
General Liability We generally use a combination of loss development methods and expected loss ratio methods for primary general liability or products liability classes. We also supplement the standard actuarial techniques by using evaluations of the ultimate losses on unusual claims or claim accumulations by external experts on those classes of claims. The segmentation of the data reflects state differences, industry classes, deductible/non-deductible programs and type of claim.	For certain classes of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years. For smaller or more volatile classes of business, loss development methods may be given limited weight for the five or more most recent accident years. Expected loss ratio methods are used for the more recent accident years for these classes. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. Additionally, certain sub-classes, such as construction, are generally reviewed separately from business in other subclasses. Due to the fairly long-tail nature of general liability business, and the many subclasses that are reviewed individually, there is less credibility given to the reported losses and increased reliance on expected loss ratio methods for recent accident years.
Commercial Automobile Liability We generally use loss development methods for all but the most recent accident year for commercial automobile classes of business.	Expected loss ratio methods are generally given significant weight only in the most recent accident year.
Healthcare We generally use a combination of loss development methods and expected loss ratio methods for healthcare classes of business. Frequency/severity methods are sometimes used for pricing certain healthcare accounts or business. However, in testing loss reserves the business is generally combined into larger groupings to enhance the credibility of the loss experience. We also supplement the standard actuarial techniques by using evaluations of the ultimate losses on unusual claims by experts on those classes of claims.	The largest component of the healthcare business consists of coverage written for hospitals and other healthcare facilities. We test reserves for excess coverage separately from those for primary coverage. For primary coverages, loss development methods are generally given the majority of the weight for all but the latest three accident years, and are given some weight for all years other than the latest accident year. For excess coverages, expected loss methods are generally given all the weight for the latest three accident years, and are also given considerable weight for accident years prior to the latest three years. For other classes of healthcare coverage, an analogous weighting between loss development and expected loss ratio methods is used. The weights assigned to each method are those that are believed to result in the best combination of responsiveness and credibility.

Class of Business or Category and Actuarial Method	Application of Actuarial Method
Professional Liability We generally use a combination of loss development methods and expected loss ratio methods for professional liability classes of business. Frequency/severity methods are used in pricing and profitability analyses for some classes of professional liability; however, for loss reserve adequacy testing, the need to ensure sufficient credibility generally results in segmentations that are not sufficiently homogenous to utilize frequency/severity methods. We also use claim department projections of the ultimate value of each reported claim to supplement and inform the standard actuarial approaches.	Loss development methods are used for the more mature accident years. Greater weight is given to expected loss ratio methods in the more recent accident years. Reserves are tested separately for claims made classes and classes written on occurrence policy forms. Further segmentations are made in a manner believed to provide an appropriate balance between credibility and homogeneity of the data.
Catastrophic Casualty We use expected loss ratio methods for all accident years for catastrophic casualty business. This class of business consists of casualty or financial lines coverage that attach in excess of very high attachment points; thus the claims experience is marked by very low frequency and high severity. Because of the limited number of claims, loss development methods are not used.	The expected loss ratios and loss development assumptions used are based upon the results of prior accident years for this business as well as for similar classes of business written above lower attachment points. The business can be written on a claims-made or occurrence basis. We use ground-up claim projections provided by our claims staff to assist in developing the appropriate reserve.
Aviation We generally use a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods are used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.	Expected loss ratio methods are used to determine the loss reserves for the latest accident year.
Personal Auto We generally use frequency/severity methods and loss development methods for domestic personal auto classes.	For many classes of business, greater reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto and allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.
Fidelity/Surety We generally use loss development methods for fidelity exposures for all but the latest accident year. For surety exposures, we generally use the same method as for short-tail classes (discussed below).	Expected loss ratio methods are also given weight for the more recent accident years. For the latest accident year they may be given 100 percent weight.

Class of Business or Category and Actuarial Method	Application of Actuarial Method
Mortgage Guaranty We test mortgage guaranty reserves using loss development methods, supplemented by an internal claim analysis by actuaries and staff who specialize in the mortgage guaranty business.	The reserve analysis projects ultimate losses for claims within each of several categories of delinquency based on actual historical experience, using primarily a frequency/severity loss development approach. Additional reserve tests are also employed, such as tests measuring losses as a percent of risk in force. Reserves are reviewed separately for each line of business considering the loss development characteristics, volume of claim data available and applicability of various actuarial methods to each line. Reserves for mortgage guaranty insurance losses and loss adjustment expenses are established for reported mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. We establish reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon projected claim experience for each category of delinquency, consistent in total with the overall reserve estimate. Mortgage Guaranty losses and loss adjustment expenses have been adversely affected by macroeconomic events, such as declining home prices and increasing unemployment. Because these macroeconomic events are subject to adverse or favorable change, the determination of the ultimate losses and loss adjustment expenses requires a high degree of judgment. Responding to these adverse macroeconomic influences, numerous government and lender loan modification programs have been implemented to mitigate mortgage losses. The loan modification programs have produced additional cures of delinquent loans in 2012 that may not continue in 2013 as some modification programs are phased out or retired. In addition, these loan modifications may re-default resulting in new losses for Mortgage Guaranty. Occurrences of fraudulent loans, underwriting violations, and other deviations from contractual terms, mostly related to the 2006 and 2007 blocks of business, have resulted in historically high levels of claim rescissions and denials (collectively referred to as rescissions) during 2011. As a result, many lenders have increased their rescission appeals activity as well as the success rate on those appeals by focusing additional resources on the process. The increased lender attention on tracking down missing loan documents along with the heightened focus on appeals of rescissions caused the estimated ultimate rescission rate (net of appeals) assumed in the loss reserves to be lower than the rescission level projected in 2011. If this trend continues it may unfavorably affect future results. We believe we have provided appropriate reserves for currently delinquent loans, consistent with industry practices.

Class of Business or Category and Actuarial Method	Application of Actuarial Method
Other Short-Tail Classes We generally use either loss development methods or IBNR factor methods to set reserves for short-tail classes such as property coverages.	Where a factor is used, it generally represents a percent of earned premium or other exposure measure. The factor is determined based on prior accident year experience. For example, the IBNR for a class of property coverage might be expected to approximate 20 percent of the latest year's earned premium. The factor is continually reevaluated in light of emerging claim experience as well as rate changes or other factors that could affect the adequacy of the IBNR factor being employed.
International Business written by AIG Property Casualty internationally includes both long-tail and short-tail classes of business. For long-tail classes of business, the actuarial methods used are comparable to those described above. However, the majority of business written by AIG Property Casualty internationally is short-tail, high frequency and low severity in nature. For this business, loss development methods are generally employed to test the loss reserves.	We maintain a database of detailed historical premium and loss transactions in original currency for business written by AIG Property Casualty internationally. This allows our actuaries to determine the current reserves without any distortion from changes in exchange rates over time. Our actuaries segment the international data by region, country or class of business as appropriate to determine an optimal balance between homogeneity and credibility.
Loss Adjustment Expenses We determine reserves for legal defense and cost containment loss adjustment expenses for each class of business by one or more actuarial or structural driver methods. The methods generally include development methods comparable to those described for loss development methods. The development could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar classes of business.	We generally determine reserves for adjuster loss adjustment expenses based on calendar year ratios of adjuster expenses paid to losses paid for the particular class of business. We generally determine reserves for other unallocated loss adjustment expenses based on the ratio of the calendar year expenses paid to overall losses paid. This determination is generally done for all classes of business combined, and reflects costs of home office claim overhead as a percent of losses paid.
Catastrophes We conduct special analyses in response to major catastrophes in order to estimate our gross and net loss and loss expense liability from those events.	These analyses may include a combination of approaches, including modeling estimates, ground-up claim analysis, loss evaluation reports from on-site field adjusters, and market share estimates.

Alternative Loss Cost Trend and Loss Development Factor Assumptions by Class of Business

For classes of business other than the classes discussed below, there is generally some potential for deviation in both the loss cost trend and loss development factor assumptions.

The effect of these deviations is expected to be less material compared to the effect on the classes noted below

Loss cost trends: The percentage deviations noted in the table below are not considered the highest possible deviations that might be expected, but rather what we consider to reflect a reasonably likely range of potential deviation. Actual loss cost trends in the early 1990s were negative for several years whereas actual loss cost trends exceeded the figures cited above for several other years. Loss trends may deviate by more than the amounts noted above and discussed below.

Loss development factors: The percentage deviations noted in the table below are not considered the highest possible deviations that might be expected, but rather what we consider to reflect a reasonably likely range of potential deviation. Except for excess workers' compensation, the assumed loss development factors are a key assumption. Generally, actual historical loss development factors are used to project future loss development. Future loss development patterns may be different from those in the past, or may deviate by more than the amounts noted above and discussed below.

AIG's loss reserve analyses do not generally provide a range of loss reserve estimates. A large portion of the loss reserves from AIG Property Casualty business relates to longer-tail casualty classes of business, such as excess casualty and D&O, which are driven by severity rather than frequency of claims. Using the reserving methodologies described above, our actuaries determine their actuarial central estimates of the loss reserves and advise management on their final recommendation for management's best estimate of the recorded reserves. Subject matter experts from underwriting and claims play an important part in informing the actuarial assumptions and methods. The governance process over the establishment of loss reserves also ensures robust considerations of the changes in the loss trends, terms and conditions, claims handling practices, and large loss impact when determining the methods, assumptions and the estimations. This multi-disciplinary process engages underwriting, claims, risk management, business unit executives and senior management and involves several iterative levels of feedback and response during the regular reserving process.

The sensitivity analysis below addresses each major class of business for which there is a possibility of a material deviation from our overall reserve position. The analysis uses what we believe is a reasonably likely range of potential deviation for each class. Actual reserve development may not be consistent with either the original or the adjusted loss trend or loss development factor assumptions, and other assumptions made in the reserving process may materially affect reserve development for a particular class of business.

Class of Business	Loss Cost Trend	Loss Development Factor
Excess Casualty	The assumed loss cost trend was approximately five percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2012 loss reserve review for excess casualty will range from 0 percent to positive 10 percent, or approximately 5 percent lower or higher than the assumption actually utilized in the year-end 2012 reserve review. The loss cost trend assumption is critical for the excess casualty class of business due to the long-tail nature of the claims and therefore is applied across many accident years. Thus, there is the potential for the reserves with respect to a number of accident years (the expected loss ratio years) to be significantly affected by changes in loss cost trends that were initially relied upon in setting the reserves. These changes in loss trends could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting claims.	After evaluating the historical loss development factors from prior accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors will range from approximately 3.3 percent below those actually utilized in the year-end 2012 reserve review to approximately 4.6 percent above those factors actually utilized. Excess casualty is a long-tail class of business and any deviation in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for the reserves with respect to a number of accident years to be significantly affected by changes in loss development factors that were initially relied upon in setting the reserves. These changes in loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic conditions affecting claims.
D&O and Related Management Liability Classes of Business	The assumed loss cost trend was approximately half of one percent. After evaluating the historical loss cost trends from prior accident years since the early 1990s, including the potential effect of recent claims relating to the credit crisis, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2012 loss reserve review for these classes will range from negative 25 percent to positive 27 percent, or approximately 25.5 percent lower or 26.5 percent higher than the assumption actually utilized in the year-end 2012 reserve review. Because the D&O class of business has exhibited highly volatile loss trends from one accident year to the next, there is the possibility of an exceptionally high deviation.	The assumed loss development factors are also an important assumption but less critical than for excess casualty. Because these classes are written on a claims made basis, the loss reporting and development tail is much shorter than for excess casualty. However, the high severity nature of the claims does create the potential for significant deviations in loss development patterns from one year to the next. After evaluating the historical loss development factors for these classes of business for accident years since the early 1990s, in our judgment, it is reasonably likely that actual loss development factors will range from approximately 6.8 percent lower to 11 percent higher than those factors actually utilized in the year-end 2012 loss reserve review for these classes.

Class of Business	Loss Cost Trend	Loss Development Factor
Primary Workers' Compensation		
	The loss cost trend assumption is not believed to be material with respect to our loss reserves. This is primarily because our actuaries are generally able to use loss development projections for all but the most recent accident year's reserves, so there is limited need to rely on loss cost trend assumptions for primary workers' compensation business.	Generally, our actual historical workers' compensation loss development factors would be expected to provide a reasonably accurate predictor of future loss development. However, workers' compensation is a long-tail class of business, and our business reflects a very significant volume of losses, particularly in recent accident years. After evaluating the actual historical loss development since the 1980s for this business, in our judgment, it is reasonably likely that actual loss development factors will fall within the range of approximately 3.1 percent below to 6.9 percent above those actually utilized in the year-end 2012 loss reserve review.
Excess Workers' Compensation		
	Loss costs were trended at six percent per annum. After reviewing actual industry loss trends for the past ten years, in our judgment, it is reasonably likely that actual loss cost trends applicable to the year-end 2012 loss reserve review for excess workers' compensation will range five percent lower or higher than this estimated loss trend.	Excess workers' compensation is an extremely long-tail class of business, with a much greater than normal uncertainty as to the appropriate loss development factors for the tail of the loss development. After evaluating the historical loss development factors for prior accident years since the 1980s as well as the development over the past several years of the ground up claim projections utilized to help select the loss development factors in the tail for this class of business, in our judgment, it is reasonably likely that actual loss development for excess workers' compensation could increase the current reserves by up to approximately $1.3 billion or decrease them by approximately $850 million.

The following sensitivity analysis table summarizes the effect on the loss reserve position of using certain alternative loss cost trend (for accident years where we use expected loss ratio methods) or loss development factor assumptions rather than the assumptions actually used in determining our estimates in the year-end loss reserve analyses in 2012.

December 31, 2012 *(in millions)*		**Effect on Loss Reserves**			**Effect on Loss Reserves**
Loss cost trends:			Loss development factors:		
Excess casualty:			*Excess casualty:*		
5 percent increase	$	1,500	4.6 percent increase	$	1,100
5 percent decrease		(1,100)	3.3 percent decrease		(700)
D&O:			*D&O:*		
26.5 percent increase		1,000	11 percent increase		650
25.5 percent decrease		(700)	6.8 percent decrease		(400)
Excess workers' compensation:			*Excess workers' compensation:*		
5 percent increase		400	Increase[(b)]		1,300
5 percent decrease		(250)	Decrease[(b)]		(850)
Primary workers' compensation[(a)]:			*Primary workers' compensation:*		
			6.9 percent increase		2,200
			3.1 percent decrease		(1,000)

(a) Loss cost trend assumption does not have a material impact for this line of business.

(b) Percentages not applicable due to extremely long-tailed nature of workers' compensation.

Future Policy Benefits for Life and Accident and Health Insurance Contracts (AIG Life and Retirement)

Periodically, we evaluate estimates used in establishing liabilities for future policy benefits for life and accident and health insurance contracts, which include liabilities for certain payout annuities. We also evaluate estimates used in amortizing Deferred Policy Acquisition Costs (DAC), Value of Business Acquired (VOBA) and Sales Inducement Assets (SIA) for these products. We evaluate these estimates against actual experience and adjust them based on management judgment regarding mortality, morbidity, persistency, maintenance expenses, and investment returns.

For long duration traditional business, a "lock-in" principle applies. The assumptions used to calculate the benefit liabilities and DAC are set when a policy is issued and do not change with changes in actual experience, unless a loss recognition event occurs. These assumptions include margins for adverse deviation in the event that actual experience might deviate from these assumptions.

As we experience changes over time, we update the assumptions to reflect these observed changes. Because of the long term nature of many of our liabilities subject to the "lock-in" principle, small changes in certain assumptions may cause large changes in the degree of reserve adequacy. In particular, changes in estimates of future invested asset returns have a large effect on the degree of reserve deficiency. If observed changes in actual experience or estimates result in projected future losses under loss recognition testing, we adjust DAC through amortization expense, and may record additional liabilities through a charge to policyholder benefit expense. Loss recognition testing is performed at an aggregate AIG Life and Retirement reporting segment level. Once loss recognition has been recorded for a block of business, the old assumption set is replaced (i.e., a DAC unlocking), and the assumption set used for the loss recognition would then be subject to the lock-in principle. See Note 10 to the Consolidated Financial Statements for additional information.

The key assumptions used in estimating future policy benefit reserves are:

Investment returns: which vary by year of issuance and products.

Mortality, morbidity and surrender rates: based upon actual experience modified to allow for variation in policy form, risk classification and distribution channel.

Premium rate increases (Long-term care)

We also use these estimates to determine whether to adjust DAC and record additional liabilities when unrealized gains or losses on fixed maturity and equity securities available for sale are recognized through accumulated other comprehensive income. The determination is made at each balance sheet date, as if the securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. Significant unrealized appreciation on investments in a prolonged low interest rate environment may cause DAC to be adjusted and additional future policy benefit liabilities to be recorded through a charge directly to accumulated other comprehensive income (ie. Shadow DAC). This is included, net of tax, with the change in net unrealized appreciation (depreciation) of investments.

Our future policy benefits include guaranteed minimum death benefits (GMDB). We determine the GMDB liability each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected fees. The estimates include assumptions about interest rates, mortality rates, lapse rates and a randomly generated model of investment returns. In addition to GMDB, our future policy benefits include, to a lesser extent, guaranteed minimum income benefits (GMIB). We determine GMIB liability each period end by estimating the expected value of the periodic income payments from annuities in excess of the projected account balance. We derive this estimate at the date the annuity converts to regular payments, and we recognize the excess ratably over the accumulation period based on total expected assessments. We periodically evaluate estimates used and adjust the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

We also issue certain variable annuity products that offer optional guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). These living benefits are embedded derivatives that are required to be bifurcated from the host contract and carried at fair value. The fair value estimates of the living benefit guarantees include assumptions such as equity market returns, interest rates, market volatility and policyholder behavior. We also incorporate our own risk of non-performance in the valuation of the embedded policy derivatives. See Note 6 to the Consolidated Financial Statements for information on how AIG incorporates its own non-performance risk.

We have a dynamic hedging program designed to manage economic risk exposure associated with changes in the fair value of GMWB and GMAV liabilities caused by changes in the equity markets, interest rates and market implied volatilities. The program utilizes hedging instruments, including derivatives such as equity options, futures contracts and interest rate swap contracts, and is designed so that changes in value of the hedging instruments move in the opposite direction of changes in the GMWB and GMAV embedded derivative liabilities. We monitor the hedging positions on a daily basis in relation to the change in valuation of GMWB and GMAV embedded derivative liabilities, and rebalance those positions as needed. Differences between the change in fair value of GMWB and GMAV embedded derivative liabilities and the hedging instruments can be caused by extreme and unanticipated movements in the equity markets, interest rates and market volatility, policyholder behavior, statutory capital considerations and constraints and the ability to purchase hedging instruments at prices consistent with the desired risk and return trade-off. None of the derivative instruments described above are designated for hedge accounting.

Approximately 56 percent of our individual variable annuity account values contain either a GMWB rider or a GMAV rider as of December 31, 2012. Declines in the equity markets, increased volatility and a sustained low interest rate environment increase our exposure to potential benefits under the GMWB and GMAV contracts, leading to an increase in the existing liability for those benefits. Our exposure to the guaranteed amounts is equal to the amount by which the contract holder's account balance is below the guaranteed withdrawal or account value amount. As of December 31, 2012, our exposure to the guaranteed withdrawal and account value amount under GMWB and GMAV was $0.9 billion and $10 million, respectively.

The only way the GMWB contract holder can monetize the excess of the guaranteed amount over the account value of the contract is through a series of withdrawals that do not exceed a specific percentage per year of the guaranteed amount. If, after the series of withdrawals, the account value is exhausted, the contract holder will receive a series of annuity payments equal to the remaining guaranteed amount, and, for lifetime GWWB products, the annuity payments can continue beyond the guaranteed amount. The account value can also fluctuate with equity market returns on a daily basis resulting in increases or decreases in the excess of the guaranteed amount over account value.

The net impact of the change in the fair value of the embedded derivative liabilities, as well as the change in the fair value of the derivative instruments is included in Net Realized Capital Gains (Losses).

For a further discussion of the risks of AIG's unhedged exposures, see Item 1A. Risk Factors Business and Operations.

Estimated Gross Profits for Interest-Sensitive Products (AIG Life and Retirement)

Estimated gross profits (EGP) are subject to differing market returns and interest rate environments in any single period. EGP is composed of net investment income, net realized investment gains and losses, fees, surrender charges, expenses, and mortality and morbidity gains and losses. When assumptions are changed, the percentage of EGP used to amortize DAC may also change.

The following table summarizes the sensitivity of changes in certain assumptions in the amortization of DAC/SIA, guaranteed benefits reserve and unearned revenue liability and the related hypothetical impact on year-end 2012 balances. The effect of changes in the equity markets, volatility and interest rates primarily impacts individual variable annuities (SunAmerica Retirement Markets) and group retirement products (VALIC). The effect of changes in mortality primarily impacts the universal life insurance business.

December 31, 2012 *(in millions)*	DAC/SIA	Guaranteed Benefits Reserve	Unearned Revenue Liability	Net Pre-Tax Earnings
Assumptions:				
Equity Return[(a)]				
Effect of an increase by 1%	$ 67	$	$ (23)	$ 90
Effect of a decrease by 1%	(67)		54	(121)
Volatility[(b)]				
Effect of an increase by 1%	(10)	1	2	(13)
Effect of a decrease by 1%	9	(1)	(2)	12
Interest Rate[(c)]				
Effect of an increase by 10 basis points	9	1		8
Effect of a decrease by 10 basis points	(9)	(1)		(8)
Mortality				
Effect of an increase by 1%	(15)	(6)	13	(22)
Effect of a decrease by 1%	13	5	(13)	21

(a) Represents the net impact of 1 percent increase or decrease in long-term equity returns for GMDB and GMIB reserves and negligible net impact of 1 percent increase or decrease in the S&P 500 index for living benefit reserves.

(b) Represents the net impact of 1 percentage point increase or decrease in implied volatility.

(c) Represents the net impact of a 10 basis point parallel shift in the yield curve. Does not represent interest rate spread compression.

The analysis of DAC, guaranteed benefits reserve and unearned revenue liability is a dynamic process that considers all relevant factors and assumptions described above. We estimate each of the above factors individually, without the effect of any correlation among the key assumptions. An assessment of sensitivity associated with changes in any single assumption would not necessarily be an indicator of future results.

Other-Than-Temporary Impairments on Available For Sale Securities

At each balance sheet date, we evaluate our available for sale securities holdings with unrealized losses.

See the discussion in Note 7 to the Consolidated Financial Statements for additional information on the methodology and significant inputs, by security type, that we use to determine the amount of other-than-temporary impairment on fixed maturity and equity securities.

Goodwill Impairment

For a discussion of goodwill impairment, see Note 2 to the Consolidated Financial Statements.

Liability for Legal Contingencies

We estimate and record a liability for potential losses that may arise from litigation and regulatory proceedings to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we often cannot predict the outcome or estimate the eventual loss or range of reasonably possible losses related to such matters.

See Note 16 to the Consolidated Financial Statements.

Fair Value Measurements of Certain Financial Assets and Liabilities

See Note 6 to the Consolidated Financial Statements for more detailed information about the measurement of fair value of financial assets and financial liabilities and how our accounting policy incorporates credit risk in fair value measurements.

The following table presents the fair value of fixed maturity and equity securities by source of value determination:

December 31, 2012 *(in billions)*		Fair Value	Percent of Total
Fair value based on external sources[(a)]	$	280	94%
Fair value based on internal sources		18	6
Total fixed maturity and equity securities[(b)]	$	298	100%

(a) Includes $28.7 billion for which the primary source is broker quotes.

(b) Includes available for sale and trading securities.

Level 3 Assets and Liabilities

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 6 to the Consolidated Financial Statements for additional information.

The following table presents the amount of assets and liabilities measured at fair value on a recurring basis and classified as Level 3:

(in billions)		December 31, 2012	Percentage of Total		December 31, 2011	Percentage of Total
Assets	$	**40.5**	**7.4%**	$	39.4	7.1%
Liabilities		**4.1**	**0.9**		5.3	1.2

Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. We consider unobservable inputs to be those for which market data is not available and that are developed using the best information available about the assumptions that market participants would use when valuing the asset or liability. Our assessment of the significance of a particular input to the

fair value measurement in its entirety requires judgment.

We classify fair value measurements for certain assets and liabilities as Level 3 when they require significant unobservable inputs in their valuation, including contractual terms, prices and rates, yield curves, credit curves, measures of volatility, prepayment rates, default rates, mortality rates and correlations of such inputs.

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The following paragraphs describe the methods we use to measure fair value on a recurring basis for certain classes of assets and liabilities classified in Level 3. See Note 6 to the Consolidated Financial Statements for discussion of the valuation methodologies for other assets classified in Level 3, including certain fixed maturity securities and certain other invested assets, as well as discussion of transfers of Level 3 assets and liabilities.

Super Senior Credit Default Swap Portfolio

The entities included in GCM wrote credit protection on the super senior risk layer of collateralized loan obligations (CLOs), multi-sector CDOs and diversified portfolios of corporate debt, and prime residential mortgages through 2006. In these transactions, AIG is at risk of credit performance on the super senior risk layer related to such assets. To a lesser extent, those entities also wrote protection on tranches below the super senior risk layer, primarily related to regulatory capital relief transactions.

See Notes 6 and 12 to the Consolidated Financial Statements for information about the Regulatory Capital, Multi-Sector CDO, Corporate Debt/Collateralized Debt Obligation (CLO) and other portfolios.

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on our calculation of the unrealized market valuation loss related to the super senior credit default swap portfolio. While we believe that the ranges used in these analyses are reasonable, we are unable to predict which of the scenarios is most likely to occur. As recent experience demonstrates, actual results in any period are likely to vary, perhaps materially, from the modeled scenarios, and there can be no assurance that the unrealized market valuation loss related to the super senior credit default swap portfolio will be consistent with any of the sensitivity analyses. On average, prices for CDOs increased during 2012. Further, it is difficult to extrapolate future experience based on current market conditions.

For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the Binomial Expansion Technique (BET) model is used to estimate the change in the fair value of the derivative liability. Of the total $3.9 billion net notional amount of CDS written on multi-sector CDOs outstanding at December 31, 2012, a BET value is available for $2.6 billion net notional amount. No BET value is determined for $1.3 billion of CDS written on European multi-sector CDOs as prices on the underlying securities held by the CDOs are not provided by collateral managers; instead these CDS are valued using counterparty prices. Therefore, sensitivities disclosed below apply only to the net notional amount of $2.6 billion.

The most significant assumption used in the BET model is the estimated price of the securities within the CDO collateral pools. If the actual price of the securities within the collateral pools differs from the price used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. Any declines in the value of the underlying collateral securities held by a CDO will similarly affect the value of the super senior CDO securities. While the models attempt to predict changes in the prices of underlying collateral securities held within a CDO, the changes are subject to actual market conditions which have proved to be highly volatile. We cannot predict reasonably likely changes in the prices of the underlying collateral securities held within a CDO at this time.

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The following table presents key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability by ABS category at December 31, 2012 corresponding to changes in these key inputs:

			Increase (Decrease) to Fair Value of Derivative Liability						
(dollars in millions)	Average Inputs Used at December 31, 2012	Change	Entire Portfolio	RMBS Prime	RMBS Alt-A	RMBS Subprime	CMBS	CDOs	Other
Bond prices	41 points	Increase of 5 points	$ (152)	$ (2)	$ (10)	$ (72)	$ (44)	$ (15)	$ (9)
		Decrease of 5 points	146	2	9	62	45	14	14
Weighted average life	5.75 years	Increase of 1 year	15	1		11	2		1
		Decrease of 1 year	(23)	(1)		(18)	(3)	(1)	
Recovery rates	17%	Increase of 10%	(13)		(2)	(8)	(1)	(1)	(1)
		Decrease of 10%	15		2	9	3	1	
Diversity score[(a)]	14	Increase of 5	(4)						
		Decrease of 5	11						
Discount curve[(b)]	N/A	Increase of 100bps	10						

(a) The diversity score is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible.

(b) The discount curve is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible. Furthermore, for this input it is not possible to disclose a weighted average input as a discount curve consists of a series of data points.

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by us for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

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GLOSSARY

Accident year The annual calendar accounting period in which loss events occurred, regardless of when the losses are actually reported, booked or paid.

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

Accident year loss ratio, as adjusted the loss ratio excluding catastrophe losses and related reinstatement premiums, prior year development, net of premium adjustments and the impact of reserve discount. Catastrophe losses are generally weather or seismic events having a net impact on AIG Property Casualty in excess of $10 million each.

Acquisition ratio acquisition costs divided by net premiums earned. Acquisition costs are those costs incurred to acquire new and renewal insurance contracts and also include the amortization of VOBA. Acquisition costs vary with sales and include, but are not limited to, commissions, premium taxes, direct marketing costs, certain costs of personnel engaged in sales support activities such as underwriting, and the change in deferred acquisition costs. Acquisition costs that are incremental and directly related to successful sales efforts are deferred and recognized over the coverage periods of related insurance contracts. Acquisition costs that are not incremental and directly related to successful sales efforts are recognized as incurred.

Admitted insurer A company licensed to transact insurance business within a state.

AIG After-tax operating income (loss) is derived by excluding the following items from net income (loss): income (loss) from discontinued operations, net loss (gain) on sale of divested businesses, income from divested businesses, legacy FIN 48 and other tax adjustments, legal reserves (settlements) related to "legacy crisis matters," deferred income tax valuation allowance (releases) charges, amortization of the Federal Reserve Bank of New York prepaid commitment fee asset, changes in fair value of AIG Life and Retirement fixed income securities designated to hedge living benefit liabilities, change in benefit reserves and deferred policy acquisition costs (DAC), value of business acquired (VOBA), and sales inducement assets (SIA) related to net realized capital (gains) losses, (gain) loss on extinguishment of debt, net realized capital (gains) losses, non-qualifying derivative hedging activities, excluding net realized capital (gains) losses and bargain purchase gain. "Legacy crisis matters" include favorable and unfavorable settlements related to events leading up to and resulting from our September 2008 liquidity crisis. It also includes legal fees incurred by AIG as the plaintiff in connection with such legal matters.

AIG Life and Retirement Operating income (loss) Operating income (loss) is derived by excluding the following items from net income (loss): legal settlements related to legacy crisis matters, changes in fair values of fixed maturity securities designated to hedge living benefit liabilities, net realized capital (gains) losses, and changes in benefit reserves and DAC, VOBA, and SIA related to net realized capital (gains) losses.

AIG Life and Retirement Premiums, deposits and other considerations includes life insurance premiums and deposits on annuity contracts and mutual funds.

AIG Property Casualty Net premiums written represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Consolidated Balance Sheet.

AIG Property Casualty Operating income (loss) In 2012, AIG Property Casualty revised its non-GAAP income measure from underwriting income (loss) to operating income (loss), which includes both underwriting income (loss) and net investment income, but not net realized capital (gains) losses or other (income) expense, legal settlements related to legacy crisis matters and bargain purchase gain. Underwriting income (loss) is derived by reducing net premiums earned by claims and claims adjustment expense and underwriting expenses, which consist of the acquisition costs and general operating expenses.

Assume, assumed reinsurance, assuming company An insurance company that accepts all or part of a ceding company's insurance or reinsurance on a risk or exposure is referred to as the assuming company.

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Basel I, Basel II and Basel III set of capital and liquidity standards for international financial institution established by the Basel Committee on Banking Supervision.

BET *Binomial Expansion Technique* A model that generates expected loss estimates for CDO tranches and derives a credit rating for those tranches.

Book Value Per Share Excluding Accumulated Other Comprehensive Income (loss) (AOCI) is used to show the amount of our net worth on a per-share basis. Book Value Per Share Excluding AOCI is derived by dividing Total AIG shareholders' equity, excluding AOCI, by Total common shares outstanding.

Case reserves Claim department estimates of anticipated future payments to be made on each specific individual reported claim.

Casualty insurance Insurance that is primarily associated with the losses caused by injuries to third persons, i.e., not the insured, and the legal liability imposed on the insured as a result.

Cede, ceded reinsurance, ceding company An insurance company that reinsures its risk with another, is referred to as the ceding company.

Combined ratio Sum of the loss ratio and the acquisition and general operating expense ratios.

CSA *Credit Support Annex* A legal document that provides for collateral postings at various ratings and threshold levels.

DAC *Deferred Policy Acquisition Costs* Deferred costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

Expense ratio Sum of acquisition costs and general operating expenses, divided by net premiums earned.

First-Lien Priority over all other liens or claims on a property in the event of default on a mortgage.

General operating expense ratio general operating expenses divided by net premiums earned. General operating expenses are those costs that are generally attributed to the support infrastructure of the organization and include but are not limited to personnel costs, projects and bad debt expenses. General operating expenses exclude claims adjustment expenses, acquisition expenses, and investment expenses.

GIC/GIA *Guaranteed Investment Contract/Guaranteed Investment Agreement* A contract whereby the seller provides a guaranteed repayment of principal and a fixed or floating interest rate for a predetermined period of time.

IBNR *Incurred But Not Reported* Estimates of claims that have been incurred but not reported to us.

IFS *Insurer Financial Strength ratings* IFS ratings measure the ability of an insurance company to meet its obligations to contract holders and policyholders.

LAE *Loss Adjustment Expenses* The expenses of settling claims, including legal and other fees and the portion of general expenses allocated to claim settlement costs.

Long-Tail Reserves Reserves for claims that may be reported or settled several years after the coverage period has expired for these classes of businesses. Long-tail casualty classes of business include excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

Loss Ratio Claims and claims adjustment expenses incurred divided by net premiums earned. Claims adjustment expenses are directly attributed to settling and paying claims of insureds and include, but are not limited to, legal fees, adjuster's fees, and claims department personnel costs.

Loss reserve development The increase or decrease in incurred claims and claim adjustment expenses as a result of the re-estimation of claims and claim adjustment expense reserves at successive valuation dates for a given group of claims.

Loss reserves Liability for unpaid claims and claims adjustment expense. The estimated ultimate cost of settling claims relating to insured events that have occurred on or before the balance sheet date, whether or not reported to the insurer at that date.

LTV *Loan-to-Value Ratio* Principal amount of loan amount divided by appraised value of collateral securing the loan.

Net premiums written Represent the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while Net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are earned, the amount is presented as Unearned premium reserves in the Consolidated Balance Sheet.

Noncontrolling interest The portion of equity ownership in a consolidated subsidiary not attributable to the controlling parent company.

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

Overturns The reversal of a rescinded mortgage guarantee policy.

Policy fees An amount added to a policy premium, or deducted from a policy cash value or contract holder account, to reflect the cost of issuing a policy, establishing the required records, sending premium notices and other related expenses.

Prior year development Increase or decrease in estimates of losses and loss expenses for prior years that is included in earnings.

RBC *Risk-Based Capital* A formula designed to measure the adequacy of an insurer's statutory surplus compared to the risks inherent in its business.

Reinstatement premium Additional premiums payable to reinsurers to restore coverage limits that have been exhausted as a result of reinsured losses under certain excess of loss reinsurance treaties.

Reinsurance The practice whereby one insurer, the reinsurer, in consideration of a premium paid to that insurer, agrees to indemnify another insurer, the ceding company, for part or all of the liability of the ceding company under one or more policies or contracts of insurance which it has issued.

Rescission Denial of claims and termination of coverage on loans related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms.

Reserve deficiency When actual reported reserves are lower than the expected reserves. This is also referred to as unfavorable loss development.

Reserve redundancy When actual reported reserves exceed expected reserves. This is also referred to as favorable loss development.

Retained Interest Category within AIG's Other operations that includes the fair value gains or losses, prior to their sale, of the AIA ordinary shares retained following the AIA initial public offering and the MetLife, Inc. (MetLife) securities that were received as consideration from the sale of American Life Insurance Company (ALICO) and the fair value gains or losses, prior to the FRBNY liquidation of ML III assets, on the retained interest in ML III.

Second-lien Subordinate in ranking to the first-lien holder on a property in the event of default on a mortgage.

Severe losses Individual non-catastrophe first party losses greater than $10 million, net of related reinsurance.

Short-Tail Reserves Reserves for claims that are generally reported and paid within a relatively short period of time during and following the policy coverage period. Short-tail classes of business consist principally of property, personal lines and certain casualty classes.

SIA *Sales Inducement Asset* Represents amounts that are credited to policyholder account balances related to the enhanced crediting rates that a seller offers on certain of its annuity products.

SIFI *Systemically Important Financial Institutions* Financial institutions are deemed systemically important (that is, the failure of the financial institution could pose a threat to the financial stability of the United States) by the Financial Stability Oversight Council (FSOC) based on a three-stage analytical process.

Solvency II Legislation in the European Union which reforms the insurance industry's solvency framework, including minimum capital and solvency requirements, governance requirements, risk management and public reporting

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standards. The Solvency II Directive (2009/138/EEC), was adopted on November 25, 2009 and is expected to become effective in January 2014.

SSDMF *Social Security Death Master File* A database of deceased individuals, most of whom were issued a social security number during their lifetimes, maintained by the U.S. Social Security Administration.

Surrender charge A charge levied against an investor for the early withdrawal of funds from a life insurance or annuity contract, or for the cancellation of the agreement.

Unearned premium reserve Liabilities established by insurers and reinsurers to reflect unearned premiums which are usually refundable to policyholders if an insurance or reinsurance contract is canceled prior to expiration of the contract term.

VaR *Value-at-Risk* A summary statistical measure that uses the estimated volatility and correlation of market factors to calculate the maximum loss that could occur over a defined period of time with a specified level of statistical confidence.

VOBA *Value of Business Acquired* Present value of projected future gross profits from in-force policies from acquired businesses.

ACRONYMS

A&H Accident and Health Insurance

ABS Asset-Backed Security

CDO Collateralized Debt Obligation

CDS Credit Default Swap

CLO Collateralized Loan Obligations

CMA Capital Maintenance Agreement

CMBS Commercial Mortgage Backed Securities

FASB Financial Accounting Standards Board

FRBNY Federal Reserve Bank of New York

GAAP Accounting principles generally accepted in the United States of America

GMAV Guaranteed Minimum Account Value Benefits

GMDB Guaranteed Minimum Death Benefits

GMIB Guaranteed Minimum Income Benefits

GMWB Guaranteed Minimum Withdrawal Benefits

IFRS International Financial Reporting Standards

ISDA International Swaps and Derivatives Association, Inc.

NAIC National Association of Insurance Commissioners

NM Not Meaningful

OTC Over-the-Counter

OTTI Other-Than-Temporary Impairment

RMBS Residential Mortgage Backed Securities

S&P Standard & Poor's Financial Services LLC

SEC Securities and Exchange Commission

TARP Troubled Asset Relief Program of the Department of the Treasury

VIE Variable Interest Entity

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ITEM 7A / QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is set forth in the Enterprise Risk Management section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and is incorporated herein by reference.

ITEM 8 / FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERICAN INTERNATIONAL GROUP, INC.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of American International Group, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of American International Group, Inc. and its subsidiaries (AIG) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, AIG maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AIG's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A in the 2012 Form 10-K. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on AIG's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, as of January 1, 2012, AIG retrospectively adopted a new accounting standard that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

New York, New York
February 21, 2013

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AMERICAN INTERNATIONAL GROUP, INC.

CONSOLIDATED BALANCE SHEET

(in millions, except for share data)	December 31, 2012	December 31, 2011
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2012 $246,149; 2011 $250,770)	$ 269,959	$ 263,981
Bond trading securities, at fair value	24,584	24,364
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2012 $1,640; 2011 $1,820)	3,212	3,624
Common and preferred stock trading, at fair value	662	125
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2012 $134; 2011 $107)	19,482	19,489
Flight equipment primarily under operating leases, net of accumulated depreciation		35,539
Other invested assets (portion measured at fair value: 2012 $7,056; 2011 $20,876)	29,117	40,744
Short-term investments (portion measured at fair value: 2012 $8,056; 2011 $5,913)	28,808	22,572
Total investments	375,824	410,438
Cash	1,151	1,474
Accrued investment income	3,054	3,108
Premiums and other receivables, net of allowance	13,989	14,721
Reinsurance assets, net of allowance	25,595	27,211
Deferred income taxes	17,466	19,615
Deferred policy acquisition costs	8,182	8,937
Derivative assets, at fair value	3,671	4,499
Other assets, including restricted cash of $1,878 in 2012 and $2,988 in 2011 (portion measured at fair value: 2012 $696; 2011 $0)	10,399	11,663
Separate account assets, at fair value	57,337	51,388
Assets held for sale	31,965	
Total assets	$ 548,633	$ 553,054
Liabilities:		
Liability for unpaid claims and claims adjustment expense	$ 87,991	$ 91,145
Unearned premiums	22,537	23,465
Future policy benefits for life and accident and health insurance contracts	36,340	34,317
Policyholder contract deposits (portion measured at fair value: 2012 $1,257; 2011 $918)	127,117	126,898

	2012	2011
Other policyholder funds	6,267	6,691
Derivative liabilities, at fair value	4,061	4,733
Other liabilities (portion measured at fair value: 2012 $1,080; 2011 $907)	32,114	28,248
Long-term debt (portion measured at fair value: 2012 $8,055; 2011 $10,766)	48,500	75,253
Separate account liabilities	57,337	51,388
Liabilities held for sale	27,366	
Total liabilities	449,630	442,138
Contingencies, commitments and guarantees (see Note 16)		
Redeemable noncontrolling interests (see Note 18):		
Nonvoting, callable, junior preferred interests held by Department of the Treasury		8,427
Other	334	96
Total redeemable noncontrolling interests	334	8,523
AIG shareholders' equity:		
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2012 1,906,611,680 and 2011 1,906,568,099	4,766	4,766
Treasury stock, at cost; 2012 430,289,745; 2011 9,746,617 shares of common stock	(13,924)	(942)
Additional paid-in capital	80,410	80,459
Retained earnings	14,176	10,774
Accumulated other comprehensive income	12,574	6,481
Total AIG shareholders' equity	98,002	101,538
Non-redeemable noncontrolling interests (including $100 associated with businesses held for sale)	667	855
Total equity	98,669	102,393
Total liabilities and equity	$ 548,633	$ 553,054

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 OPERATIONS

	Years Ended December 31,		
(dollars in millions, except per share data)	2012	2011	2010
Revenues:			
Premiums	$ 38,011	$ 38,990	$ 45,319
Policy fees	2,791	2,705	2,710
Net investment income	20,343	14,755	20,934
Net realized capital gains (losses):			
Total other-than-temporary impairments on available for sale securities	(448)	(1,216)	(1,712)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income (loss)	(381)	168	(812)
Net other-than-temporary impairments on available for sale securities recognized in net income	(829)	(1,048)	(2,524)
Other realized capital gains	1,758	1,749	1,808
Total net realized capital gains (losses)	929	701	(716)
Other income	3,582	2,661	4,582
Total revenues	65,656	59,812	72,829
Benefits, claims and expenses:			
Policyholder benefits and claims incurred	31,977	33,450	41,392
Interest credited to policyholder account balances	4,362	4,467	4,487
Amortization of deferred acquisition costs	5,709	5,486	5,821
Other acquisition and insurance expenses	9,235	8,458	10,163
Interest expense	2,319	2,444	6,742
Net loss on extinguishment of debt	9	2,847	104
Net (gain) loss on sale of properties and divested businesses	2	74	(19,566)
Other expenses	2,721	2,470	3,439
Total benefits, claims and expenses	56,334	59,696	52,582
Income from continuing operations before income taxes	9,322	116	20,247
Income tax expense (benefit):			
Current	795	18	580
Deferred	775	(19,442)	6,413
Income taxes expense (benefit)	1,570	(19,424)	6,993

Income from continuing operations		7,752		19,540		13,254
Income (loss) from discontinued operations, net of income taxes		(4,052)		1,790		(969)
Net income		3,700		21,330		12,285
Less:						
Net income from continuing operations attributable to noncontrolling interests:						
Nonvoting, callable, junior and senior preferred interests		208		634		1,818
Other		54		54		354
Total net income from continuing operations attributable to noncontrolling interests		262		688		2,172
Net income from discontinued operations attributable to noncontrolling interests				20		55
Total net income attributable to noncontrolling interests		262		708		2,227
Net income attributable to AIG	$	3,438	$	20,622	$	10,058
Net income attributable to AIG common shareholders	$	3,438	$	19,810	$	2,046
Income per common share attributable to AIG common shareholders:						
Basic and diluted:						
Income from continuing operations	$	4.44	$	10.03	$	16.50
Income (loss) from discontinued operations	$	(2.40)	$	0.98	$	(1.52)
Weighted average shares outstanding:						
Basic		1,687,197,038		1,799,385,757		136,585,844
Diluted		1,687,226,641		1,799,458,497		136,649,280

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)

	Years Ended December 31,		
(in millions)	2012	2011	2010
Net income	**$ 3,700**	$ 21,330	$ 12,285
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	**1,286**	(74)	1,229
Change in unrealized appreciation (depreciation) of all other investments	**4,880**	(1,485)	2,293
Change in foreign currency translation adjustments		(992)	(928)
Change in net derivative gains arising from cash flow hedging activities	**17**	17	94
Change in retirement plan liabilities adjustment	**(87)**	(70)	275
Other comprehensive income (loss)	**6,096**	(2,604)	2,963
Comprehensive income	**9,796**	18,726	15,248
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	**208**	634	1,818
Comprehensive income (loss) attributable to other noncontrolling interests	**57**	(47)	590
Total comprehensive income attributable to noncontrolling interests	**265**	587	2,408
Comprehensive income attributable to AIG	**$ 9,531**	$ 18,139	$ 12,840

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

(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
Balance, January 1, 2010	$ 69,784	$ 354	$ (874)	$ 5,030	$ (11,491)	$ 7,021	$ 69,824	$ 28,252	$ 98,076
Cumulative effect of change in accounting principle, net of tax					(8,415)	(932)	(9,347)		(9,347)
Series F drawdown	2,199						2,199		2,199
Common stock issued		2		(20)			(18)		(18)
Equity unit exchange		12		3,645			3,657		3,657
Net income attributable to AIG or other noncontrolling interests(a)					10,058		10,058	336	10,394
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests								1,818	1,818
Other comprehensive income(b)						2,782	2,782	176	2,958
Deferred income taxes				(332)			(332)		(332)
Net decrease due to deconsolidation								(2,740)	(2,740)
Contributions from noncontrolling interests								253	253
Distributions to noncontrolling interests								(175)	(175)
Other			1	32			33		33
Balance, December 31, 2010	$ 71,983	$ 368	$ (873)	$ 8,355	$ (9,848)	$ 8,871	$ 78,856	$ 27,920	$ 106,776
Series F drawdown	20,292						20,292		20,292
Repurchase of SPV preferred interests in connection with Recapitalization(c)								(26,432)	(26,432)
Exchange of consideration for	(92,275)	4,138		67,460			(20,677)		(20,677)

preferred stock in connection with Recapitalization(c)									
Common stock issued		250		2,636			2,886		2,886
Purchase of common stock			(70)				(70)		(70)
Settlement of equity unit stock purchase contract		9		2,160			2,169		2,169
Net income attributable to AIG or other noncontrolling interests(a)					20,622		20,622	82	20,704
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests								74	74
Other comprehensive loss(b)						(2,483)	(2,483)	(119)	(2,602)
Deferred income taxes				2			2		2
Acquisition of noncontrolling interest				(164)		93	(71)	(489)	(560)
Net decrease due to deconsolidation								(123)	(123)
Contributions from noncontrolling interests								120	120
Distributions to noncontrolling interests								(128)	(128)
Other		1	1	10			12	(50)	(38)
Balance, December 31, 2011	$	$4,766	$ (942)	$80,459	$ 10,774	$ 6,481	$101,538	$ 855	$102,393
Common stock issued under stock plans			**18**	**(15)**			**3**		**3**
Purchase of common stock			**(13,000)**				**(13,000)**		**(13,000)**
Net income attributable to AIG or other noncontrolling interests(a)					**3,438**		**3,438**	**40**	**3,478**
Other comprehensive income (loss)(b)						**6,093**	**6,093**	**(1)**	**6,092**
Deferred income taxes				**(9)**			**(9)**		**(9)**
Net decrease due to deconsolidation								**(27)**	**(27)**
Contributions from noncontrolling interests								**80**	**80**
Distributions to noncontrolling interests								**(167)**	**(167)**
Other				**(25)**	**(36)**		**(61)**	**(113)**	**(174)**

Balance, December 31, 2012	**$**	**$ 4,766**	**$ (13,924)**	**$ 80,410**	**$ 14,176**	**$ 12,574**	**$ 98,002**	**$ 667**	**$ 98,669**

(a) Excludes gains of $222 million, $552 million and $73 million in 2012, 2011 and 2010, respectively, attributable to redeemable noncontrolling interests and net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York of $0, $74 million and $1.8 billion in 2012, 2011 and 2010, respectively.

(b) Excludes $4 million, $(2) million and $5 million attributable to redeemable noncontrolling interests for the year ended December 31, 2012, 2011 and 2010, respectively.

(c) See Notes 18 and 25 to Consolidated Financial Statements.

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

Years Ended December 31, (in millions)	2012	2011	2010
Cash flows from operating activities:			
Net income	$ 3,700	$ 21,330	$ 12,285
(Income) loss from discontinued operations	4,052	(1,790)	969
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Noncash revenues, expenses, gains and losses included in income:			
Net gains on sales of securities available for sale and other assets	(3,219)	(1,772)	(2,903)
Net (gains) losses on sales of divested businesses	2	74	(19,566)
Net losses on extinguishment of debt	9	2,847	104
Unrealized gains in earnings net	(6,107)	(957)	(1,529)
Equity in income from equity method investments, net of dividends or distributions	(911)	(637)	(1,268)
Depreciation and other amortization	5,307	5,424	5,977
Amortization of costs and accrued interest and fees related to FRBNY Credit Facility		48	4,223
Impairments of assets	1,524	1,798	3,759
Changes in operating assets and liabilities:			
General and life insurance reserves	(2,260)	(202)	8,705
Premiums and other receivables and payables net	1,736	1,771	482
Reinsurance assets and funds held under reinsurance treaties	1,407	(1,103)	(3,510)
Capitalization of deferred policy acquisition costs	(5,613)	(5,429)	(5,933)
Current and deferred income taxes net	1,122	(20,061)	6,052
Payment of FRBNY Credit Facility accrued compounded interest and fees		(6,363)	
Other, net	(1)	(1,234)	(1,686)
Total adjustments	(7,004)	(25,796)	(7,093)
Net cash provided by (used in) operating activities continuing operations	748	(6,256)	6,161
Net cash provided by operating activities discontinued operations	2,928	6,175	10,436
Net cash provided by (used in) operating activities	3,676	(81)	16,597
Cash flows from investing activities:			
Proceeds from (payments for)			
Sales or distribution of:			
Available for sale investments	39,818	43,961	56,211
Trading securities	17,814	9,867	6,363

Other invested assets	18,552	7,655	8,424
Divested businesses, net		587	21,760
Maturities of fixed maturity securities available for sale	21,449	20,062	14,609
Principal payments received on and sales of mortgage and other loans receivable	3,266	3,154	5,259
Purchases of:			
Available for sale investments	(53,536)	(90,627)	(78,886)
Trading securities	(13,373)	(1,253)	(3,380)
Other invested assets	(4,463)	(6,023)	(7,579)
Mortgage and other loans receivable issued and purchased	(3,256)	(2,587)	(2,990)
Net change in restricted cash	695	27,202	(27,026)
Net change in short-term investments	(8,158)	18,799	(2,446)
Other, net	(526)	180	(167)
Net cash provided by investing activities continuing operations	18,282	30,977	(9,848)
Net cash provided by (used in) investing activities discontinued operations	(1,670)	5,471	(64)
Net cash provided by investing activities	16,612	36,448	(9,912)
Cash flows from financing activities:			
Proceeds from (payments for)			
Policyholder contract deposits	13,288	17,903	19,570
Policyholder contract withdrawals	(13,978)	(13,570)	(14,897)
FRBNY credit facility repayments		(14,622)	(23,178)
FRBNY credit facility borrowings			19,900
Issuance of long-term debt	4,844	3,190	3,342
Repayments of long-term debt	(7,276)	(9,486)	(7,986)
Proceeds from drawdown on the Department of the Treasury Commitment		20,292	2,199
Repayment of Department of the Treasury SPV Preferred Interests	(8,636)	(12,425)	
Repayment of FRBNY SPV Preferred Interests		(26,432)	
Issuance of Common Stock		5,055	
Purchase of Common Stock	(13,000)	(70)	
Acquisition of noncontrolling interest	(167)	(688)	
Other, net	4,493	(277)	(5,967)
Net cash used in financing activities continuing operations	(20,432)	(31,130)	(7,017)
Net cash used in financing activities discontinued operations	(132)	(5,796)	(2,244)
Net cash used in financing activities	(20,564)	(36,926)	(9,261)
Effect of exchange rate changes on cash	16	29	39
Net decrease in cash	(260)	(530)	(2,537)
Cash at beginning of period	1,474	1,558	4,400
Reclassification to assets held for sale	(63)	446	(305)
Cash at end of period	$ 1,151	$ 1,474	$ 1,558

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. In addition, changes were made to the presentation of the Consolidated Statement of Cash Flows to align presentation of changes in fair value of derivatives with changes in

the administration of our derivatives portfolio.

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Supplementary Disclosure of Consolidated Cash Flow Information

Years Ended December 31, *(in millions)*		2012		2011		2010
Cash paid during the period for:						
Interest*	**$**	**4,037**	$	8,985	$	5,166
Taxes	**$**	**447**	$	716	$	1,002
Non-cash financing/investing activities:						
Interest credited to policyholder contract deposits included in financing activities	**$**	**4,501**	$	4,750	$	9,294
Exchange of equity units and extinguishment of junior subordinated debentures	**$**		$		$	3,657