

AMERICAN INTERNATIONAL GROUP INC  
Form 10-Q  
May 07, 2010

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

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**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended March 31, 2010**

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from**

to

**Commission File Number 1-8787**

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**American International Group, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**70 Pine Street, New York, New York**

(Address of principal executive offices)

**13-2592361**

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

**10270**

(Zip Code)

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

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**Former name, former address and former fiscal year, if changed since last report: Not applicable**

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of April 30, 2010, there were 135,070,621 shares outstanding of the registrant's common stock.

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American International Group, Inc., and Subsidiaries

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American International Group, Inc., and Subsidiaries

**Part I FINANCIAL INFORMATION****ITEM 1. Financial Statements (unaudited)****Consolidated Balance Sheet**

<i>(in millions)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2010 \$254,416; 2009 \$364,491)	\$ 256,870	\$ 365,551
Bond trading securities, at fair value	26,365	31,243
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2010 \$4,882; 2009 \$6,464)	6,831	9,522
Common and preferred stock trading, at fair value	613	8,318
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2010 \$157; 2009 \$119)	22,533	27,461
Finance receivables, net of allowance	18,912	20,327
Flight equipment primarily under operating leases, net of accumulated depreciation	43,258	44,091
Other invested assets (portion measured at fair value: 2010 \$10,154; 2009 \$18,888)	33,250	45,235
Securities purchased under agreements to resell, at fair value	1,615	2,154
Short-term investments (portion measured at fair value: 2010 \$22,184; 2009 \$23,975)	38,800	47,263
Total investments	449,047	601,165
Cash	2,133	4,400
Accrued investment income	3,467	5,152
Premiums and other receivables, net of allowance	18,718	16,549
Reinsurance assets, net of allowance	25,791	22,425
Current and deferred income taxes	6,805	4,108
Deferred policy acquisition costs	19,064	40,814
Real estate and other fixed assets, net of accumulated depreciation	3,259	4,142
Unrealized gain on swaps, options and forward transactions, at fair value	7,383	9,130
Goodwill	2,565	6,195
Other assets, including prepaid commitment asset of \$6,460 in 2010 and \$7,099 in 2009 (portion measured at fair value: 2010 \$13; 2009 \$288)	17,072	18,976
Separate account assets, at fair value	51,953	58,150
Assets of businesses held for sale	256,440	56,379
<b>Total assets</b>	<b>\$ 863,697</b>	<b>\$ 847,585</b>

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

**Consolidated Balance Sheet** (Continued)

<i>(in millions, except share data)</i>	March 31, 2010	December 31, 2009
<b>Liabilities:</b>		
Liability for unpaid claims and claims adjustment expense	\$ 86,489	\$ 85,386
Unearned premiums	26,350	21,363
Future policy benefits for life and accident and health insurance contracts	47,752	116,001
Policyholder contract deposits (portion measured at fair value: 2010 \$641; 2009 \$5,214)	142,932	220,128
Other policyholder funds	7,493	13,252
Commissions, expenses and taxes payable	2,874	4,950
Insurance balances payable	4,004	4,393
Funds held by companies under reinsurance treaties	708	774
Securities sold under agreements to repurchase (portion measured at fair value: 2010 \$3,418; 2009 \$3,221)	3,418	3,505
Securities and spot commodities sold but not yet purchased, at fair value	458	1,030
Unrealized loss on swaps, options and forward transactions, at fair value	6,296	5,403
Trust deposits and deposits due to banks and other depositories (portion measured at fair value: 2010 \$16; 2009 \$15)	1,030	1,641
Other liabilities	21,015	22,503
Federal Reserve Bank of New York Commercial Paper Funding Facility (portion measured at fair value: 2010 \$2,285; 2009 \$2,742)	2,285	4,739
Federal Reserve Bank of New York credit facility	27,400	23,435
Other long-term debt (portion measured at fair value: 2010 \$12,800; 2009 \$13,195)	109,744	113,298
Separate account liabilities	51,953	58,150
Liabilities of businesses held for sale	217,837	48,599
<b>Total liabilities</b>	<b>760,038</b>	<b>748,550</b>
Commitments, contingencies and guarantees (see Note 9)		
Redeemable noncontrolling interests in partially owned consolidated subsidiaries (including \$1,270 and \$211 associated with businesses held for sale in 2010 and 2009, respectively)	1,940	959
<b>AIG shareholders' equity:</b>		
Preferred stock		
Series E; \$5.00 par value; shares issued: 2010 and 2009 400,000, at aggregate liquidation value	41,605	41,605
Series F; \$5.00 par value; shares issued: 2010 and 2009 300,000, aggregate liquidation value: 2010 \$7,543; 2009 \$5,344	7,378	5,179
Series C; \$5.00 par value; shares issued: 2010 and 2009 100,000, aggregate liquidation value: 2010 and 2009 \$0.5	23,000	23,000
Common stock, \$2.50 par value; 5,000,000,000 shares authorized; shares issued: 2010 141,605,834; 2009 141,732,263	354	354
Treasury stock, at cost; 2010 6,661,350; 2009 6,661,356 shares of common stock	(874)	(874)
Additional paid-in capital	6,356	6,358
Accumulated deficit	(9,871)	(11,491)
Accumulated other comprehensive income	7,053	5,693
<b>Total AIG shareholders' equity</b>	<b>75,001</b>	<b>69,824</b>
<b>Noncontrolling interests:</b>		
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	25,059	24,540

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Other (including \$374 and \$2,234 associated with businesses held for sale in 2010 and 2009, respectively)	1,659	3,712
<b>Total noncontrolling interests</b>	<b>26,718</b>	<b>28,252</b>
<b>Total equity</b>	<b>101,719</b>	<b>98,076</b>
<b>Total liabilities and equity</b>	<b>\$ 863,697</b>	<b>\$ 847,585</b>

*See Accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc., and Subsidiaries

**Consolidated Statement of Income (Loss)**

<i>(dollars in millions, except per share data)</i>	<b>Three Months Ended</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		
Premiums and other considerations	\$ 10,067	\$ 12,841
Net investment income	4,836	915
Net realized capital losses:		
Total other-than-temporary impairments on available for sale securities	(309)	(3,672)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive loss	(521)	-
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	(830)	(3,672)
Other realized capital gains	282	898
Total net realized capital losses	(548)	(2,774)
Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio	119	(452)
Other income	1,856	2,785
<b>Total revenues</b>	<b>16,330</b>	<b>13,315</b>
<b>Benefits, claims and expenses:</b>		
Policyholder benefits and claims incurred	8,519	11,353
Policy acquisition and other insurance expenses	3,262	3,576
Interest expense	1,734	2,587
Restructuring expenses and related asset impairment and other expenses	110	338
Net loss (gain) on sale of divested businesses	77	(262)
Other expenses	1,793	2,239
<b>Total benefits, claims and expenses</b>	<b>15,495</b>	<b>19,831</b>
<b>Income (loss) from continuing operations before income tax benefit</b>	<b>835</b>	<b>(6,516)</b>
<b>Income tax benefit</b>	<b>(91)</b>	<b>(1,303)</b>
<b>Income (loss) from continuing operations</b>	<b>926</b>	<b>(5,213)</b>
<b>Income (loss) from discontinued operations, net of income tax expense (benefit) (See Note 3)</b>	<b>1,173</b>	<b>80</b>



<b>Net income (loss)</b>	<b>2,099</b>	<b>(5,133)</b>
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**Less:****Net income (loss) from continuing operations attributable to noncontrolling interests:**

Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York

	<b>519</b>	<b>-</b>
Other	<b>129</b>	<b>(774)</b>

**Total net income (loss) from continuing operations attributable to noncontrolling interests**

	<b>648</b>	<b>(774)</b>
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**Net loss from discontinued operations attributable to noncontrolling interests**

	<b>-</b>	<b>(6)</b>
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**Total net income (loss) attributable to noncontrolling interests**

	<b>648</b>	<b>(780)</b>
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<b>Net income (loss) attributable to AIG</b>	<b>\$ 1,451</b>	<b>\$ (4,353)</b>
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<b>Net income (loss) attributable to AIG common shareholders</b>	<b>\$ 294</b>	<b>\$ (5,365)</b>
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**Income (loss) per common share attributable to AIG:**

## Basic:

Income (loss) from continuing operations	<b>\$ 0.41</b>	<b>\$ (40.29)</b>
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Income (loss) from discontinued operations	<b>\$ 1.75</b>	<b>\$ 0.62</b>
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## Diluted:

Income (loss) from continuing operations	<b>\$ 0.41</b>	<b>\$ (40.29)</b>
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Income (loss) from discontinued operations	<b>\$ 1.75</b>	<b>\$ 0.62</b>
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**Weighted average shares outstanding:**

Basic	<b>135,658,680</b>	135,252,869
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Diluted	<b>135,724,939</b>	135,252,869
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See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

**Consolidated Statement of Comprehensive Income (Loss)**

<i>(in millions)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net income (loss)</b>	<b>\$ 2,099</b>	<b>\$ (5,133)</b>
<b>Other comprehensive income (loss):</b>		
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	<b>993</b>	-
Income tax benefit (expense) on above changes	<b>(220)</b>	-
Unrealized appreciation (depreciation) of all other investments net of reclassification adjustments	<b>2,531</b>	(3,372)
Income tax benefit (expense) on above changes	<b>(1,374)</b>	1,392
Foreign currency translation adjustments	<b>(958)</b>	(941)
Income tax benefit (expense) on above changes	<b>429</b>	209
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	<b>24</b>	26
Income tax benefit (expense) on above changes	<b>(2)</b>	27
Change in retirement plan liabilities adjustment	<b>77</b>	58
Income tax benefit (expense) on above changes	<b>(24)</b>	(18)
<b>Other comprehensive income (loss)</b>	<b>1,476</b>	(2,619)
<b>Comprehensive income (loss)</b>	<b>3,575</b>	(7,752)
<b>Comprehensive income (loss) attributable to noncontrolling interests</b>	<b>(31)</b>	(867)
<b>Comprehensive income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York</b>	<b>519</b>	-
<b>Comprehensive income (loss) attributable to AIG</b>	<b>\$ 3,087</b>	<b>\$ (6,885)</b>

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

**Consolidated Statement of Cash Flows**

<i>(in millions)</i>	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Summary:</b>		
Net cash provided by (used in) operating activities	\$ 3,195	\$ 3,770
Net cash provided by (used in) investing activities	(4,516)	1,432
Net cash provided by (used in) financing activities	(266)	(9,644)
Effect of exchange rate changes on cash	(42)	(171)
<b>Change in cash</b>	<b>(1,629)</b>	<b>(4,613)</b>
Cash at beginning of period	4,400	8,642
Reclassification of assets held for sale	(638)	-
<b>Cash at end of period</b>	<b>2,133</b>	<b>4,029</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,099	\$ (5,133)
(Income) loss from discontinued operations	(1,173)	(80)
<b>Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:</b>		
<b>Noncash revenues, expenses, gains and losses included in income (loss):</b>		
Net (gains) losses on sales of securities available for sale and other assets	(422)	57
Net (gains) losses on sales of divested businesses	77	(262)
Unrealized (gains) losses in earnings net	591	(373)
Equity in (income) loss from equity method investments, net of dividends or distributions	(336)	2,084
Depreciation and other amortization	2,529	3,050
Provision for mortgage, other loans and finance receivables	344	1,019
Impairments of assets	1,753	4,193
Amortization of costs and accrued interest and fees related to FRBNY Credit Facility	856	1,495
<b>Changes in operating assets and liabilities:</b>		
General and life insurance reserves	2,323	(1,988)
Premiums and other receivables and payables net	(1,002)	(482)
Reinsurance assets and funds held under reinsurance treaties	(3,637)	1,772
Capitalization of deferred policy acquisition costs	(1,914)	(2,313)
Other policyholder funds	(63)	(1)
Current and deferred income taxes net	(954)	(1,761)
Other assets and liabilities net	(791)	49
Trading securities	21	1,027
Securities sold under agreements to repurchase, net of securities purchased under agreements to resell	306	390
Securities and spot commodities sold but not yet purchased	(572)	(1,528)
Finance receivables and other loans held for sale originations and purchases	(5)	(22)
Sales of finance receivables and other loans held for sale	48	32
Other, net	267	371
<b>Total adjustments</b>	<b>(581)</b>	<b>6,809</b>
<b>Net cash provided by (used in) operating activities continuing operations</b>	<b>345</b>	<b>1,596</b>
<b>Net cash provided by (used in) operating activities discontinued operations</b>	<b>2,850</b>	<b>2,174</b>
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 3,195</b>	<b>\$ 3,770</b>

*See Accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc., and Subsidiaries

**Consolidated Statement of Cash Flows** (Continued)

(in millions)	Three Months Ended March 31,	
	2010	2009
<b>Cash flows from investing activities:</b>		
Proceeds from (payments for)		
Sales of available for sale investments	\$ 7,893	\$ 12,263
Maturities of fixed maturity securities available for sale and hybrid investments	3,340	3,592
Sales of trading securities	1,746	3,635
Sales or distributions of other invested assets (including flight equipment)	2,157	2,711
Sales of divested businesses, net	1,471	704
Principal payments received on mortgage and other loans receivable	938	1,010
Principal payments received on and sales of finance receivables held for investment	1,590	4,006
Purchases of available for sale investments	(15,847)	(9,974)
Purchases of trading securities	(356)	(2,829)
Purchases of other invested assets (including flight equipment)	(1,915)	(2,228)
Acquisition, net of cash acquired	(139)	-
Mortgage and other loans receivable issued	(303)	(778)
Finance receivables held for investment originations and purchases	(746)	(1,855)
Change in securities lending invested collateral	-	969
Net additions to real estate, fixed assets, and other assets	(64)	(101)
Net change in short-term investments	(1,043)	(7,778)
Net change in non-AIGFP derivative assets and liabilities	(129)	(48)
Other, net	(49)	(63)
Net cash provided by (used in) investing activities continuing operations	(1,456)	3,236
Net cash provided by (used in) investing activities discontinued operations	(3,060)	(1,804)
<b>Net cash provided by (used in) investing activities</b>	<b>\$ (4,516)</b>	<b>\$ 1,432</b>
<b>Cash flows from financing activities:</b>		
Proceeds from (payments for)		
Policyholder contract deposits	\$ 4,394	\$ 4,738
Policyholder contract withdrawals	(3,639)	(8,316)
Change in other deposits	(122)	49
Change in commercial paper and other short-term debt	-	(421)
Change in Federal Reserve Bank of New York Commercial Paper Funding Facility borrowings	(3,565)	(2,945)
Federal Reserve Bank of New York credit facility borrowings	8,300	10,900
Federal Reserve Bank of New York credit facility repayments	(4,551)	(4,600)
Issuance of other long-term debt	4,170	1,209
Repayments on other long-term debt	(7,143)	(5,953)
Change in securities lending payable	-	(490)
Drawdown on the Department of the Treasury Commitment	2,199	-
Other, net	(462)	(653)
Net cash provided by (used in) financing activities continuing operations	(419)	(6,482)
Net cash provided by (used in) financing activities discontinued operations	153	(3,162)
<b>Net cash provided by (used in) financing activities</b>	<b>\$ (266)</b>	<b>\$ (9,644)</b>

**Supplementary disclosure of cash flow information:**

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**Cash (paid) received during the period for:**

Interest	\$ (1,047)	\$ (1,466)
Taxes	\$ (604)	\$ (179)

**Non-cash financing/investing activities:**

Interest credited to policyholder contract deposits included in financing activities	\$ 2,086	\$ 1,598
Long-term debt reduction due to deconsolidations	\$ 829	\$ -
Debt assumed on consolidation of variable interest entities	\$ 2,591	\$ -
Debt assumed on acquisition	\$ 164	\$ -

*See Accompanying Notes to Consolidated Financial Statements.*

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American International Group, Inc., and Subsidiaries

**Consolidated Statement of Equity**

<b>Three Months Ended March 31, 2010</b>	<b>Accumulated</b>									
	<b>Preferred</b>	<b>Common</b>	<b>Treasury</b>	<b>Additional</b>	<b>Accumulated</b>	<b>Comprehensive</b>	<b>Other</b>	<b>Total AIG</b>	<b>Non-</b>	<b>Total</b>
<i>(in millions)</i>	<b>Stock</b>	<b>Stock</b>	<b>Stock</b>	<b>Paid-in</b>	<b>Deficit</b>	<b>Income</b>	<b>Income</b>	<b>Share-</b>	<b>controlling</b>	<b>Equity</b>
				<b>Capital</b>		<b>(Loss)</b>	<b>Equity</b>	<b>Interests</b>		<b>Equity</b>
Balance, beginning of year	\$ 69,784	\$ 354	\$ (874)	\$ 6,358	\$ (11,491)	\$ 5,693	\$ 69,824	\$ 28,252	\$ 98,076	
Series F drawdowns	2,199	-	-	-	-	-	2,199	-	2,199	
Common stock issued under stock plans	-	-	-	(5)	-	-	(5)	-	(5)	
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	169	(276)	(107)	-	(107)	
Net income <sup>(a)</sup>	-	-	-	-	1,451	-	1,451	133	1,584	
Other comprehensive income (loss) <sup>(b)</sup>	-	-	-	-	-	1,636	1,636	(165)	1,471	
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(2,161)	(2,161)	
Contributions from noncontrolling interest	-	-	-	-	-	-	-	210	210	
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(87)	(87)	
Net income (loss) attributable to noncontrolling nonvoting, callable, junior and senior preferred interests held by the Federal Reserve Bank of New York	-	-	-	-	-	-	-	519	519	
Other	-	-	-	3	-	-	3	17	20	
<b>Balance, end of period</b>	<b>\$ 71,983</b>	<b>\$ 354</b>	<b>\$ (874)</b>	<b>\$ 6,356</b>	<b>\$ (9,871)</b>	<b>\$ 7,053</b>	<b>\$ 75,001</b>	<b>\$ 26,718</b>	<b>\$ 101,719</b>	

(a) Excludes \$(4) million 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 \$519 million.

(b) Excludes \$5 million attributable to redeemable noncontrolling interests.

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)

**1. Summary of Significant Accounting Policies**

**Basis of Presentation**

These unaudited condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States (GAAP) for complete consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2009 (2009 Annual Report on Form 10-K).

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. AIG evaluated the need to disclose events that occurred subsequent to the balance sheet date. All material intercompany accounts and transactions have been eliminated.

***Use of Estimates***

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

AIG's ability to continue as a going concern;

liability for general insurance unpaid claims and claims adjustment expenses;

future policy benefits for life and accident and health contracts;

recoverability of deferred policy acquisition costs (DAC);

estimated gross profits for investment-oriented products;

the allowance for finance receivable losses;

flight equipment recoverability;

other-than-temporary impairments;

goodwill impairment;

liabilities for legal contingencies;



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estimates with respect to income taxes, including recoverability of deferred tax assets;

fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS) and AIG's economic interest in Maiden Lane II LLC (ML II) and equity interest in Maiden Lane III LLC (ML III) (together, the Maiden Lane Interests);

classification of entities as held-for-sale or as discontinued operations; and

fair value of the assets and liabilities, including non-controlling interests, related to acquisitions.

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

### ***Out of Period Adjustments***

For the three months ended March 31, 2010, AIG recorded out of period adjustments relating to prior years that decreased Net income attributable to AIG by \$158 million, primarily related to the effect of recording

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)

impairments on certain consolidated investments held in the Institutional Asset Management operations, which affected the calculation of income taxes. While these adjustments were noteworthy for the quarter, after evaluating the quantitative and qualitative aspects of these corrections, AIG concluded that its prior period financial statements were not materially misstated and, therefore, no restatement was required.

Had these and all previously reported out of period adjustments been recorded in their appropriate periods, the net loss attributable to AIG for the year ended December 31, 2009 would have increased by \$604 million, from \$10.9 billion to \$11.5 billion.

**Going Concern Considerations**

In the audited financial statements included in the 2009 Annual Report on Form 10-K, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months.

***Liquidity of Parent and Subsidiaries***

AIG manages liquidity at both the parent and subsidiary levels. AIG Parent has not had access to its traditional sources of financing through the public debt markets. While no assurance can be given that AIG will be able to access its traditional sources of long-term or short-term financing through the public markets again, AIG periodically evaluates its ability to access the capital markets.

Historically, AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG's current financial situation, certain of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG. As a result, AIG has also been dependent on the Federal Reserve Bank of New York (FRBNY) Credit Facility (the FRBNY Credit Facility) provided by the FRBNY under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Agreement), between AIG and the FRBNY, and the FRBNY's Commercial Paper Funding Facility (CPFF), through April 26, 2010, as its primary sources of liquidity; and on the agreement by the United States Department of the Treasury (the Department of the Treasury) to provide up to \$29.835 billion (Department of Treasury Commitment) in exchange for increases in the liquidation preference of the AIG Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value \$5.00 per share (AIG Series F Preferred Stock), to support the capital needs of its insurance company subsidiaries. Primary uses of cash flow are debt service and subsidiary funding.

During the first four months of 2010, International Lease Finance Corporation (ILFC) and American General Finance, Inc. (AGF) made substantial progress in addressing their liquidity needs. During March and April of 2010, ILFC significantly increased its liquidity position through a combination of new secured and unsecured debt issuances of approximately \$4.0 billion and an extension of the maturity date of \$2.16 billion of its \$2.5 billion revolving credit facility from October 2011 to October 2012. Availability of \$550 million of the approximately \$4.0 billion of debt issuances and the extension of \$2.16 billion of the revolving credit facility are subject to the satisfaction of certain collateralization milestones. In addition, in April 2010, ILFC signed an agreement to sell 53 aircraft with an aggregate book value of approximately \$2.3 billion, which is expected to generate approximately \$2.0 billion in gross proceeds during 2010. As of March 31, 2010, none of these aircraft met the criteria to be recorded as held-for-sale. During March and April of 2010, AGF significantly enhanced its liquidity position through the following actions: AGF received cash proceeds of more than \$500 million from a \$1.0 billion asset securitization in March 2010 and executed and drew down fully a \$3.0 billion secured term loan transaction in April 2010. AGF used a portion of the proceeds from these transactions, cash on hand and proceeds from AIG's repayment of two demand promissory notes to repay all of its outstanding obligations under its \$2.45 billion one-year term loans in March 2010 and its \$2.125 billion five-year revolving credit facility in April 2010 (both of which were due in July 2010).

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Certain subsidiaries also have been dependent on the FRBNY and the Department of the Treasury to meet collateral posting requirements, to make debt repayments as amounts come due, and to meet capital or liquidity requirements.

***Progress on Management's Plans for Stabilization of AIG and Repayment of AIG's Obligations as They Come Due***

Since September 2008, AIG has been working to protect and enhance the value of its key businesses, execute an orderly asset disposition plan, and position itself for the future. AIG continually reassesses this plan to maximize value while maintaining flexibility in managing its liquidity and capital, and expects to accomplish these objectives over a longer time frame than originally contemplated.

***Sales of Businesses and Specific Asset Dispositions***

*AIA Sale*

As of March 1, 2010, AIG and AIA Aurora LLC, a special purpose vehicle formed by AIG and the FRBNY (AIA Holdings), entered into a definitive agreement (the AIA Share Purchase Agreement) with Prudential plc (Prudential) and Prudential Group Limited (formerly known as Petrohue (UK) Investments Limited), for the sale of AIA Group Limited (AIA) to Prudential Group Limited for approximately \$35.5 billion, consisting of \$25 billion in cash, approximately \$5.5 billion in face value of ordinary shares in the capital of Prudential Group Limited, \$3 billion in face value of mandatory convertible securities of Prudential Group Limited, and \$2 billion in face value of preferred stock of Prudential (or at Prudential's election, Prudential Group Limited), subject to closing adjustments. The obligations of Prudential Group Limited under the AIA Share Purchase Agreement are guaranteed by Prudential.

The cash portion of the proceeds from the sale will be paid to the FRBNY to redeem preferred interests with a liquidation preference of approximately \$16 billion plus accrued but unpaid preferred returns held by the FRBNY in AIA Holdings, and, unless otherwise agreed with the FRBNY, to repay approximately \$9 billion under the FRBNY Credit Facility. AIG intends to monetize the \$10.5 billion in face value of Prudential securities over time, subject to market conditions, following the lapse of agreed-upon minimum holding periods. Unless otherwise agreed with the FRBNY, net cash proceeds from the monetization of these securities will be used to repay any outstanding debt under the FRBNY Credit Facility.

*ALICO Sale*

As of March 7, 2010, AIG and ALICO Holdings LLC, a special purpose vehicle formed by AIG and the FRBNY (ALICO Holdings), entered into a definitive agreement (the ALICO Stock Purchase Agreement) with MetLife, Inc. (MetLife) for the sale of American Life Insurance Company (ALICO) by ALICO Holdings to MetLife, and the sale of Delaware American Life Insurance Company by AIG to MetLife, for approximately \$15.5 billion, consisting of \$6.8 billion in cash and the remainder in equity securities of MetLife, subject to closing adjustments.

The cash portion of the proceeds from the sale will be paid to the FRBNY to reduce the liquidation preference of a portion of the preferred interests owned by the FRBNY in ALICO Holdings and ALICO Holdings will hold the remainder of the transaction consideration, consisting of 78,239,712 shares of MetLife common stock, 6,857,000 shares of newly issued participating preferred stock convertible into 68,570,000 shares of common stock upon the approval of MetLife shareholders, and 40,000,000 equity units of MetLife with an aggregate stated value of \$3 billion. AIG intends to monetize these MetLife securities over time, subject to market conditions, following the lapse of agreed-upon minimum holding periods. Unless otherwise agreed with the FRBNY, net cash proceeds from the monetization of these securities will be used to reduce the liquidation preference of the preferred interests owned by the FRBNY in ALICO Holdings and thereafter to repay any outstanding debt under the FRBNY Credit Facility.

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Dispositions of certain businesses will be subject to regulatory approval. Unless a waiver is obtained from the FRBNY, net proceeds from these dispositions, to the extent they do not represent capital of AIG's insurance subsidiaries required for regulatory or ratings purposes or are not to be utilized to redeem the preferred interests held by the FRBNY in AIA Holdings and ALICO Holdings, are contractually required to be applied toward the repayment of the FRBNY Credit Facility as mandatory prepayments.

Since September 2008 and through April 28, 2010, AIG entered into agreements to sell or completed the sale of other operations and assets, excluding AIA, ALICO and the assets held by AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP), that had aggregate assets and liabilities with carrying values of \$95.5 billion and \$77.5 billion, respectively, at March 31, 2010 or the date of sale. Of these amounts, pending transactions with aggregate assets and liabilities of \$54.7 billion and \$49.2 billion, respectively, at March 31, 2010 are expected to generate approximately \$709 million of aggregate net cash proceeds that will be available to reduce the amount of the FRBNY Credit Facility, after taking into account taxes, transaction expenses, settlement of intercompany loan facilities, and capital required to be retained for regulatory or ratings purposes. Gains and losses recorded in connection with the dispositions of businesses include estimates that are subject to subsequent adjustment. Based on the transactions closed to date, AIG does not believe that such adjustments will be material to future consolidated results of operations or cash flows.

***Management's Assessment and Conclusion***

In assessing AIG's current financial position and developing operating plans for the future, management has made significant judgments and estimates with respect to the potential financial and liquidity effects of AIG's risks and uncertainties, including but not limited to:

the commitment of the FRBNY and the Department of the Treasury to the orderly restructuring of AIG and their commitment to continuing to work with AIG to maintain its ability to meet its obligations as they come due;

the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies, including in particular, the uncertainty of estimates relating to the derivative transactions of AIGFP, such as estimates of both the number of counterparties who may elect to terminate under contractual termination provisions and the amount that would be required to be paid in the event of a downgrade;

the potential for delays in asset dispositions and reduction in the anticipated proceeds therefrom;

the potential for declines in bond and equity markets;

pending sales of significant subsidiaries;

the potential effect on AIG if the capital levels of its regulated and unregulated subsidiaries prove inadequate to support current business plans;

the effect on AIG's businesses of continued compliance with the covenants of the FRBNY Credit Agreement and other agreements with the FRBNY and the Department of the Treasury;

AIG's highly leveraged capital structure;

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the effect of the provisions of the Troubled Asset Relief Program (TARP) Standards for Compensation and Corporate Governance and the Determination Memoranda issued by the Office of the Special Master for TARP Executive Compensation with respect to AIG's compensation practices and structures on AIG's ability to retain and motivate key employees or hire new employees;

the potential that loss of key personnel could reduce the value of AIG's business and impair its ability to stabilize businesses and effect a successful asset disposition plan; and

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the potential for regulatory actions in one or more countries, including possible actions resulting from the execution of management's plans for stabilization of AIG and repayment of AIG's obligations as they come due.

Based on the U.S. government's continuing commitment, the already completed transactions and the other expected transactions with the FRBNY, management's plans and progress made to stabilize AIG's businesses and dispose of certain assets, and after consideration of the risks and uncertainties of such plans, management believes that it will have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months.

It is possible that the actual outcome of one or more of management's plans could be materially different, or that one or more of management's significant judgments or estimates about the potential effects of these risks and uncertainties could prove to be materially incorrect or that the transactions with the FRBNY discussed above fail to achieve the desired objectives. If one or more of these possible outcomes is realized and third party financing is not available, AIG may need additional U.S. government support to meet its obligations as they come due. Under these adverse assumptions, without additional support from the U.S. government in the future there could exist substantial doubt about AIG's ability to continue as a going concern.

In connection with making the going concern assessment and conclusion, management and the Board of Directors of AIG have confirmed in connection with the filing in February 2010 of the 2009 Annual Report on Form 10-K that "As first stated by the U.S. Treasury and the Federal Reserve in connection with the announcement of the AIG Restructuring Plan on March 2, 2009, the U.S. Government remains committed to continuing to work with AIG to maintain its ability to meet its obligations as they come due."

AIG's consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or relating to the amounts and classification of liabilities that may be necessary should AIG be unable to continue as a going concern.

**Accounting Policies**

**Transfers of Financial Assets**

*Securities purchased (sold) under agreements to resell (repurchase), at contract value:* Securities purchased under agreements to resell and Securities sold under agreements to repurchase (other than those entered into by AIGFP) generally are accounted for as collateralized borrowing or lending transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. AIGFP carries such agreements at fair value based on market observable interest rates and credit spreads. AIG's policy is to take possession of or obtain a security interest in securities purchased under agreements to resell.

When AIG does not obtain cash collateral sufficient to fund substantially all of the cost of purchasing identical replacement securities during the term of the contract, AIG accounts for the transaction as a sale of the security and reports the obligation to repurchase the security as a derivative contract. Where securities are carried in the available for sale category, AIG records a gain or loss in income. Where changes in fair value of securities are recognized through income, no additional gain or loss is recognized. The fair value of securities transferred under repurchase agreements accounted for as sales was \$2.1 billion and \$2.3 billion at March 31, 2010 and December 31, 2009, respectively, and the related cash collateral obtained was \$1.7 billion and \$1.5 billion at March 31, 2010 and December 31, 2009, respectively.

AIG minimizes the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring customer credit exposure and collateral value and generally requiring additional collateral to be deposited with AIG when necessary.

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*Securities lending invested collateral, at fair value and Securities lending payable:* In 2008, AIG exited the domestic securities lending program, and as of March 31, 2010, AIG had exited its foreign securities lending activities.

**Recent Accounting Standards*****Accounting Changes***

AIG adopted the following accounting standards during the first quarter of 2010:

***Accounting for Transfers of Financial Assets***

In June 2009, the Financial Accounting Standards Board (FASB) issued an accounting standard addressing transfers of financial assets that removes the concept of a qualifying special-purpose entity (QSPE) from the FASB Accounting Standards Codification and removes the exception that exempted transferors from applying the consolidation rules to QSPEs. The new standard is effective for interim and annual periods beginning on January 1, 2010 for AIG. Earlier application is prohibited. The adoption of this standard increased both assets and liabilities by approximately \$1.3 billion as a result of consolidating two previously unconsolidated QSPEs. The adoption of this new standard did not have a material effect on AIG's consolidated results of operations or cash flows.

***Consolidation of Variable Interest Entities***

In June 2009, the FASB issued an accounting standard that amends the rules addressing consolidation of certain variable interest entities with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly affect the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The new standard also requires enhanced financial reporting by enterprises involved with variable interest entities.

AIG adopted the new standard on January 1, 2010. The adoption of this standard resulted in an increase in excess of amounts previously recorded for assets, liabilities, redeemable noncontrolling interest, other noncontrolling interest and accumulated deficit of approximately \$8.2 billion, \$7.1 billion, \$1.1 billion, \$0.1 billion and \$0.2 billion, respectively, and a net decrease in accumulated other comprehensive income of approximately \$0.3 billion, as a result of consolidating previously unconsolidated VIEs.

**The following table describes the two methods applied by AIG and the amount and classification in the Consolidated Balance Sheet of the assets and liabilities consolidated as a result of the adoption:**

<i>(in millions)</i>	<b>Transition Methods</b>	
	<b>Fair Value Option</b>	<b>Carrying Value</b>
<b>Assets:</b>		
Bond trading securities, at fair value	\$ 1,239	\$ 1,262
Other invested assets	-	480
Mortgage and other loans receivable	-	1,980
Other asset accounts	194	150
Assets of businesses held for sale	4,630	-
<b>Total Assets</b>	<b>\$ 6,063</b>	<b>\$ 3,872</b>
<b>Liabilities:</b>		
FRBNY commercial paper funding facility	\$ 1,088	\$ -

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Other long-term debt	-	1,533
Other liability accounts	1	31
Liabilities of businesses held for sale	4,525	-
<b>Total Liabilities</b>	<b>\$ 5,614</b>	<b>\$ 1,564</b>

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The cumulative effect adjustment of electing the fair value option was not material to AIG's accumulated deficit.

In February 2010, the FASB also issued an update to the aforementioned accounting standard that defers the revised consolidation rules for variable interest entities with attributes of, or similar to, an investment company or money market fund. The primary effect of this deferral for AIG is that AIG will continue to apply the consolidation rules in effect before the amended guidance discussed above for its interests in eligible entities, such as certain mutual funds.

**Future Application of Accounting Standards**

In March 2010, the FASB issued an accounting standard that amends the scope for embedded credit derivative features related to the redistribution of credit risk in the form of subordination of one financial instrument to another in a securitization vehicle. The new standard clarifies how to determine which embedded credit derivative features, including those in collateralized debt obligations (CDOs), credit linked notes (CLNs) and synthetic CDOs and CLNs, are considered to be embedded derivatives that should not be analyzed for potential bifurcation and separate accounting. The new standard is effective for interim and annual periods beginning on July 1, 2010 for AIG. AIG is assessing the effect adopting this new standard will have on its consolidated financial condition, results of operations, and cash flows.

**2. Segment Information**

AIG reports the results of its operations through four reportable segments: General Insurance, Domestic Life Insurance & Retirement Services, Foreign Life Insurance & Retirement Services, and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net gains (losses) on sales of divested businesses, because AIG believes that this provides more meaningful information on how its operations are performing.

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

**Three Months Ended March 31,***(in millions)*

	2010	2009
<b>Total revenues:</b>		
General Insurance	\$ 8,849	\$ 8,099
Domestic Life Insurance & Retirement Services	3,226	1,703
Foreign Life Insurance & Retirement Services*	1,075	763
Financial Services	1,508	1,265
Other	2,062	2,180
Consolidation and eliminations	(390)	(695)
<b>Total revenues</b>	<b>16,330</b>	<b>13,315</b>
<b>Pre-tax income (loss) from continuing operations:</b>		
General Insurance	1,016	102
Domestic Life Insurance & Retirement Services	327	(1,827)
Foreign Life Insurance & Retirement Services*	85	(128)
Financial Services	(439)	(1,130)
Other	(294)	(3,444)
Consolidation and eliminations	140	(89)
<b>Total pre-tax income (loss) from continuing operations</b>	<b>\$ 835</b>	<b>\$ (6,516)</b>

\*

*As a result of the announced AIA and ALICO transactions, and their treatment as discontinued operations, Foreign Life Insurance & Retirement Services operations consist of a single operating segment. See Note 3 herein for information on these transactions.*

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)***The following table presents AIG's operations by operating segment:****Three Months Ended March 31,***(in millions)***2010**      **2009****General Insurance**

Total revenues:

Commercial Insurance	\$ 5,403	\$ 5,024
Foreign General Insurance	3,446	3,075

<b>Total revenues</b>	<b>\$ 8,849</b>	<b>\$ 8,099</b>
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Pre-tax income (loss):

Commercial Insurance	\$ 730	\$ (224)
Foreign General Insurance	286	326

<b>Total pre-tax income (loss)</b>	<b>\$ 1,016</b>	<b>\$ 102</b>
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**Domestic Life Insurance & Retirement Services**

Total revenues:

Domestic Life Insurance	\$ 1,934	\$ 1,526
Domestic Retirement Services	1,292	177

<b>Total revenues</b>	<b>\$ 3,226</b>	<b>\$ 1,703</b>
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Pre-tax income (loss):

Domestic Life Insurance	\$ 227	\$ (298)
Domestic Retirement Services	100	(1,529)

<b>Total pre-tax income (loss)</b>	<b>\$ 327</b>	<b>\$ (1,827)</b>
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**Financial Services**

Total revenues:

Aircraft Leasing	\$ 882	\$ 1,281
Capital Markets	(234)	(969)
Consumer Finance	779	813
Other, including intercompany adjustments	81	140

<b>Total revenues</b>	<b>\$ 1,508</b>	<b>\$ 1,265</b>
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Pre-tax income (loss):

Aircraft Leasing	\$ (81)	\$ 316
Capital Markets	(298)	(1,121)
Consumer Finance	(25)	(306)
Other, including intercompany adjustments	(35)	(19)

<b>Total pre-tax income (loss)</b>	<b>\$ (439)</b>	<b>\$ (1,130)</b>
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**Other**

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Total revenues:		
Parent & Other	\$ 1,119	\$ 105
Mortgage Guaranty	298	317
Change in fair value of ML III	751	
Noncore Asset Management	(19)	(239)
Other noncore insurance	(17)	1,997
Consolidation and eliminations	(70)	-

Total revenues \$ 2,062 \$ 2,180

Pre-tax income (loss):		
Parent & Other	\$ (645)	\$ (2,057)
Mortgage Guaranty	96	(480)
Change in fair value of ML III	751	
Noncore Asset Management	(463)	(1,012)
Other noncore insurance	(33)	105

Total pre-tax income (loss) \$ (294) \$ (3,444)

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**3. Discontinued Operations and Held-for-Sale Classification****Discontinued Operations**

As discussed in Note 1 herein, during the first quarter of 2010, AIG entered into agreements to sell AIA and ALICO. Also, on October 12, 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan) for approximately \$2.15 billion. AIG expects each of these sales to close in 2010. These transactions met the criteria for held-for-sale and discontinued operations accounting.

Accordingly, results of operations for these companies are included as discontinued operations in AIG's Consolidated Statement of Income (Loss) for all periods shown and their aggregated assets and liabilities are presented separately as single line items in the asset and liability sections of the Consolidated Balance Sheet at March 31, 2010 for AIA and ALICO and at March 31, 2010 and December 31, 2009 for Nan Shan. Each of these companies previously had been a component of the Foreign Life Insurance & Retirement Services reportable segment.

Income (loss) from discontinued operations includes interest expense, including periodic amortization of the prepaid commitment fee asset, on debt to be assumed by the buyers of AIA and ALICO and on debt required to be repaid as a result of the disposition transactions associated with the FRBNY Credit Facility totaling \$183 million and \$258 million in the three months ended March 31, 2010 and 2009, respectively. The interest expense allocated to discontinued operations for the three-month periods ended March 31, 2010 and 2009 was based on the estimated funds of \$8.6 billion committed to repay the FRBNY Credit Facility multiplied by the daily interest rate. The periodic amortization of the prepaid commitment fee allocated to discontinued operations was determined based on the ratio of funds committed to repay the FRBNY Credit Facility to the total outstanding available amount under the FRBNY Credit Facility.

**A summary of income (loss) from discontinued operations is as follows:**

**Three Months Ended****March 31,***(in millions)*

	<b>2010</b>	<b>2009</b>
Premiums and other considerations	\$ 6,525	\$ 6,024
Net investment income	2,252	1,449
Net realized capital gains (losses)	63	(587)
Total revenues	<b>8,840</b>	6,886
Income (loss) from discontinued operations	<b>1,142</b>	152
Loss on sale	<b>(106)</b>	(3)
Income (loss) from discontinued operations, before income tax expense (benefit)	<b>1,036</b>	149
Income tax expense (benefit)	<b>(137)</b>	69
Income (loss) from discontinued operations, net of tax	<b>\$ 1,173</b>	\$ 80

Certain other sales completed during 2010 and 2009 were not classified as discontinued operations due to AIG's continued involvement or because associated assets, liabilities and results of operations were not material to AIG's consolidated financial position or results of operations.

**Held-for-Sale Classification**

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party asset management business for a \$277 million cash payment at closing plus contingent consideration to be received over time. Prior to the closing of this transaction on March 26, 2010, these businesses were a component of the Noncore Asset Management business included within Other operations. This transaction met the criteria for held-for-sale accounting, and its assets and liabilities were included as single line items in the asset and liability sections of the Consolidated Balance Sheet at December 31, 2009. This transaction did not meet the criteria for

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discontinued operations accounting because of a significant continuation of activities between AIG and the business sold.

On July 28, 2009, AIG entered into an agreement to combine its consumer finance business in Poland, conducted through AIG Bank Polska S.A., into the Polish consumer finance business of Santander Consumer Finance S.A. (SCB). In exchange, AIG will receive an equity interest in SCB. The closing is expected to occur in the second quarter of 2010. This transaction met the criteria for held-for-sale accounting and, as a result, its assets and liabilities are included as single line items in the asset and liability sections of the Consolidated Balance Sheet at March 31, 2010 and December 31, 2009. AIG Bank Polska is a component of the Financial Services reportable segment. This transaction did not meet the criteria for discontinued operations accounting because of AIG's retained equity interest in SCB.

**A summary of assets and liabilities held for sale at March 31, 2010 and December 31, 2009 is as follows:**

<i>(in millions)</i>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Fixed maturity securities	\$ 163,336	\$ 34,495
Deferred policy acquisition costs	24,204	3,322
Equity securities	15,366	2,947
Other invested assets	13,269	4,256
Short-term investments	13,170	3,501
Separate account assets	10,675	3,467
Mortgage and other loans receivable, net	9,096	3,997
Goodwill	3,457	25
Other assets	3,867	369
<b>Total Assets of businesses held for sale</b>	<b>\$ 256,440</b>	<b>\$ 56,379</b>
<b>Liabilities:</b>		
Future policy benefits for life and accident and health insurance contracts	\$ 108,812	\$ 38,023
Policyholder contract deposits	79,312	3,133
Separate account liabilities	10,675	3,467
Other liabilities	19,038	3,976
<b>Total Liabilities of businesses held for sale</b>	<b>\$ 217,837</b>	<b>\$ 48,599</b>

**4. Business Combination**

On March 31, 2010, AIG, through a Chartis International subsidiary, purchased additional voting shares in Fuji Fire & Marine Insurance Company Limited (Fuji), a publicly traded Japanese insurance company with general insurance and some life insurance operations. The acquisition of the additional voting shares for \$145 million increased Chartis' total voting ownership interest in Fuji from 41.7 percent to 54.8 percent, which resulted in Chartis International obtaining control of Fuji. This acquisition was made to maintain Chartis International's share in the substantial Japanese market, which is undergoing significant consolidation.

The purchase was accounted for under the acquisition method. Chartis identified and estimated certain of the fair values of assets acquired, liabilities assumed, and noncontrolling interests of Fuji as of the acquisition date. Because the acquisition was completed on the last day of the quarter, Chartis has not obtained final appraisals of Fuji's insurance contracts, loans, certain real estate or intangible assets.

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Based on the estimated fair values assigned to the assets acquired, liabilities assumed and noncontrolling interests, Chartis recorded an unallocated purchase price of \$581 million in Other liabilities in the Consolidated Balance Sheet. Chartis is in the process of reassessing the recognition and measurement of identifiable assets acquired, including the value of the business acquired and other intangibles, and liabilities assumed. Upon



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completion of the reassessment process, Chartis will adjust the fair value of the assets acquired and liabilities assumed for any significant differences to the provisional fair values. An adjustment to the purchase price allocation may also occur if new information on Fuji becomes known or discovered within one year from the acquisition date. To the extent an unallocated purchase price credit remains, AIG will record a bargain purchase gain. It is anticipated that any gain recognized will not be subject to U.S. or foreign income tax, because such gain would only be recognized for tax purposes upon sale of the Fuji shares.

**The following table summarizes the estimated preliminary fair values of major classes of assets acquired and liabilities assumed and the unallocated purchase price at the date of acquisition:**

*(in millions)* **At March 31, 2010**

Identifiable net assets:		
Investments	\$	10,121
Cash		6
Premiums and other receivables		889
Reinsurance assets		517
Real estate and other fixed assets		428
Other assets		108
Liability for unpaid claims and claims adjustment expense		(1,561)
Unearned premiums		(3,139)
Future policy benefits for life and accident and health insurance contracts		(1,934)
Other policyholder funds		(3,536)
Other liabilities		(460)
Total preliminary identifiable net assets acquired		
		1,439
Less:		
Cash consideration transferred		145
Fair value of the noncontrolling interest		421
Fair value of AIG's previous equity interest in Fuji		292
Unallocated purchase price	\$	581

In accordance with the acquisition method of accounting, Chartis remeasured its equity interest in Fuji, held prior to the acquisition of the additional shares, to fair value which resulted in a gain of \$47 million offset by a \$72 million charge resulting from the reversal through income of Chartis' share of Fuji's accumulated other comprehensive income. The loss was recorded in Other realized capital gains (losses) in the Consolidated Statement of Income (Loss). The fair value of AIG's previous equity interest and the noncontrolling interest were based on the publicly-traded share price on the Tokyo Stock Exchange as of the acquisition date. The acquisition-related costs, consisting primarily of legal and transaction fees, were recorded in Other expenses in the Consolidated Statement of Income (Loss).

**The following unaudited summarized pro forma consolidated income statement information assumes that the acquisition occurred as of January 1, 2009. The pro forma amounts are for comparative purposes only and may not necessarily reflect the results of operations which would have resulted had the acquisition been completed at the beginning of the applicable period and may not be indicative of the results that will be attained in the future.**

**Three Months Ended March 31,**

*(in millions)*

	<b>2010</b>	<b>2009</b>
Total revenues	\$ 17,327	\$ 13,863
Net income (loss)	2,181	(5,416)
Net income (loss) attributable to AIG	1,471	(4,500)

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**5. Fair Value Measurements**

**Fair Value Measurements on a Recurring Basis**

AIG measures the following financial instruments at fair value on a recurring basis:

trading and available for sale securities portfolios;

certain mortgage and other loans receivable;

derivative assets and liabilities;

securities purchased/sold under agreements to resell/repurchase;

non-traded equity investments and certain private limited partnerships and certain hedge funds included in other invested assets;

certain short-term investments;

separate and variable account assets;

certain policyholder contract deposits;

securities and spot commodities sold but not yet purchased;

certain trust deposits and deposits due to banks and other depositors;

certain CPFF;

certain long-term debt; and

certain hybrid financial instruments included in Other liabilities.

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

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The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset or liability being valued occur with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset or liability being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

### **Fair Value Hierarchy**

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 values as discussed below:

*Level 1:* Fair value measurements that are quoted prices (unadjusted) in active markets that AIG has the ability to access for identical assets or liabilities. Market price data generally is obtained from exchange or dealer markets. AIG does not adjust the quoted price for such instruments. Assets and liabilities measured at fair value on a recurring basis and classified as Level 1 include certain government and agency securities,

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actively traded listed common stocks and derivative contracts, most separate account assets and most mutual funds.

*Level 2:* Fair value measurements based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government and agency securities, most investment-grade and high-yield corporate bonds, certain residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and collateralized debt obligations/asset backed securities (CDO/ABS), certain listed equities, state, municipal and provincial obligations, hybrid securities, mutual fund and hedge fund investments, certain derivative contracts, guaranteed investment agreements (GIAs) and CPFF at AIGFP, other long-term debt and physical commodities.

*Level 3:* Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain RMBS, CMBS and CDO/ABS, corporate debt, certain municipal and sovereign debt, certain derivative contracts (including AIGFP's super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

The following is a description of the valuation methodologies used for instruments carried at fair value:

**Valuation Methodologies**

***Incorporation of Credit Risk in Fair Value Measurements***

*AIG's Own Credit Risk.* Fair value measurements for AIGFP's debt, GIAs, structured note liabilities and freestanding derivatives incorporate AIG's own credit risk by determining the explicit cost for each counterparty to protect against its net credit exposure to AIG at the balance sheet date by reference to observable AIG credit default swap or cash bond spreads. A counterparty's net credit exposure to AIG is determined based on master netting agreements, when applicable, which take into consideration all positions with AIG, as well as collateral posted by AIG with the counterparty at the balance sheet date.

Fair value measurements for embedded policy derivatives and policyholder contract deposits take into consideration that policyholder liabilities are senior in priority to general creditors of AIG and therefore are much less sensitive to changes in AIG credit default swap or cash issuance spreads.

*Counterparty Credit Risk.* Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads, when available. When not available, other directly or indirectly observable credit spreads are used to derive the best estimates of the counterparty spreads. AIG's net credit exposure to a counterparty is determined based on master netting agreements, which take into consideration all derivative positions with the counterparty, as well as collateral posted by the counterparty at the balance sheet date.



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A CDS is a derivative contract that allows the transfer of third party credit risk from one party to the other. The buyer of the CDS pays an upfront and/or annual premium to the seller. The seller's payment obligation is triggered by the occurrence of a credit event under a specified reference security and is determined by the loss on that specified reference security. The present value of the amount of the annual and/or upfront premium therefore represents a market-based expectation of the likelihood that the specified reference party will fail to perform on the reference obligation, a key market observable indicator of non-performance risk (the CDS spread).

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly incorporate counterparty credit risk. Fair values for fixed maturity securities based on internal models incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

The cost of credit protection is determined under a discounted present value approach considering the market levels for single name CDS spreads for each specific counterparty, the mid market value of the net exposure (reflecting the amount of protection required) and the weighted average life of the net exposure. CDS spreads are provided to AIG by an independent third party. AIG utilizes an interest rate based on the benchmark London Interbank Offered Rate (LIBOR) curve to derive its discount rates.

While this approach does not explicitly consider all potential future behavior of the derivative transactions or potential future changes in valuation inputs, AIG believes this approach provides a reasonable estimate of the fair value of the assets and liabilities, including consideration of the impact of non-performance risk.

***Fixed Maturity Securities Trading and Available for Sale***

AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value fixed maturity securities in its trading and available for sale portfolios. Market price data is generally obtained from dealer markets.

AIG estimates the fair value of fixed maturity securities not traded in active markets, including receivables (payables) arising from securities purchased (sold) under agreements to resell (repurchase), and mortgage and other loans receivable for which AIG elected the fair value option, by referring to traded securities with similar attributes, using dealer quotations, a matrix pricing methodology, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For certain fixed maturity instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

***Maiden Lane II and Maiden Lane III***

At their inception, ML II and ML III were valued and recorded at the transaction prices of \$1 billion and \$5 billion, respectively. Subsequently, the Maiden Lane Interests are valued using a discounted cash flow methodology that uses the estimated future cash flows of the Maiden Lane assets. AIG applies model-determined market discount rates to its interests. These discount rates are calibrated to the changes in the estimated asset values for the underlying assets commensurate with AIG's interests in the capital structure of the respective entities. Estimated cash flows and discount rates used in the valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms.

The fair value methodology used assumes that the underlying collateral in the Maiden Lane Interests will continue to be held and generate cash flows into the foreseeable future and does not assume a current liquidation of the assets underlying the Maiden Lane Interests. Other methodologies employed or assumptions made in

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determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

Adjustments to the fair value of AIG's interest in ML II are recorded on the Consolidated Statement of Income (Loss) in Net investment income for AIG's Domestic Life Insurance companies. Adjustments to the fair value of AIG's interest in ML III are recorded on the Consolidated Statement of Income (Loss) in Net investment income and, beginning in the second quarter of 2009, were included in Other Noncore business results, reflecting the contribution to an AIG subsidiary. Prior to the second quarter of 2009, such amounts had been included in Other Parent company results. AIG's Maiden Lane Interests are included in bond trading securities, at fair value, on the Consolidated Balance Sheet.

As of March 31, 2010, AIG expected to receive cash flows (undiscounted) in excess of AIG's initial investment, and any accrued interest, in the Maiden Lane Interests over the remaining life of the investments after repayment of the first priority obligations owed to the FRBNY. AIG's cash flow methodology considers the capital structure of the collateral securities and their expected credit losses from the underlying asset pools. The fair values of the Maiden Lane Interests are most affected by changes in the discount rates and changes in the underlying estimated future collateral cash flow assumptions used in the valuation model.

The LIBOR interest rate curve changes are determined based on observable prices, interpolated or extrapolated to derive a LIBOR for a specific maturity term as necessary. The spreads over LIBOR for the Maiden Lane Interests (including collateral-specific credit and liquidity spreads) can change as a result of changes in market expectations about the future performance of these investments as well as changes in the risk premium that market participants would demand at the time of the transactions.

Changes in estimated future cash flows would primarily be the result of changes in expectations for defaults, recoveries, and prepayments on underlying loans.

**Changes in the discount rate or the estimated future cash flows used in the valuation would alter AIG's estimate of the fair value of the Maiden Lane Interests as shown in the table below.**

March 31, 2010 <i>(in millions)</i>	Fair Value Change	
	Maiden Lane II	Maiden Lane III
Discount Rates:		
200 basis point increase	\$ (90)	\$ (659)
200 basis point decrease	101	769
400 basis point increase	(170)	(1,225)
400 basis point decrease	215	1,672
Estimated Future Cash Flows:		
10% increase	292	833
10% decrease	(296)	(831)
20% increase	579	1,661
20% decrease	(588)	(1,653)

AIG believes that the ranges of discount rates used in these analyses are reasonable based on implied spread volatilities of similar collateral securities and implied volatilities of LIBOR interest rates. The ranges of estimated future cash flows were determined based on variability in estimated future cash flows implied by cumulative loss estimates for similar instruments. Because of these factors, the fair values of the Maiden Lane Interests are likely to vary, perhaps materially, from the amount estimated.

***Equity Securities Traded in Active Markets    Trading and Available for Sale***



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AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet

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date to measure at fair value marketable equity securities in its trading and available for sale portfolios. Market price data is generally obtained from exchange or dealer markets.

***Direct Private Equity Investments*** ***Other Invested Assets***

AIG initially estimates the fair value of equity instruments not traded in active markets, which includes direct private equity investments, by reference to the transaction price. This valuation is adjusted for changes in inputs and assumptions which are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets, and/or changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

***Hedge Funds, Private Equity Funds and Other Investment Partnerships*** ***Other Invested Assets***

AIG initially estimates the fair value of investments in certain hedge funds, private equity funds and other investment partnerships by reference to the transaction price. Subsequently, AIG generally obtains the fair value of these investments from net asset value information provided by the general partner or manager of the investments, the financial statements of which are generally audited annually. AIG considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

***Separate Account Assets***

Separate account assets are composed primarily of registered and unregistered open-end mutual funds that generally trade daily and are measured at fair value in the manner discussed above for equity securities traded in active markets.

***Freestanding Derivatives***

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). AIG generally values exchange-traded derivatives using quoted prices in active markets for identical derivatives at the balance sheet date.

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market

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transactions, third party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

***Embedded Policy Derivatives***

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG's historical experience. With respect to embedded policy derivatives in AIG's variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG's equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. These methodologies incorporate an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior.

***AIGFP's Super Senior Credit Default Swap Portfolio***

AIGFP values its CDS transactions written on the super senior risk layers of designated pools of debt securities or loans using internal valuation models, third-party price estimates and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives is challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in the structured finance market. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

AIGFP's valuation methodologies for the super senior credit default swap portfolio have evolved over time in response to market conditions and the availability of market observable information. AIG has sought to calibrate the methodologies to available market information and to review the assumptions of the methodologies on a regular basis.

*Regulatory capital portfolio:* In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIGFP continues to reassess the expected maturity of the portfolio. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of the Capital Accord of the Basel

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Committee on Banking Supervision (Basel I) that existed through the end of 2007 and which is in the process of being replaced by the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II). It was expected that financial institution counterparties would have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they would have received little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances. However, the Basel Committee announced that it had agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame. In assessing the fair value of the regulatory capital CDS transactions, AIGFP also considers other market data, to the extent relevant and available. For further discussion, see Note 8 herein.

*Multi-sector CDO portfolios:* AIGFP uses a modified version of the Binomial Expansion Technique (BET) model to value its credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of ABS, including maturity-shortening puts that allow the holders of the securities issued by certain CDOs to treat the securities as short-term 2a-7 eligible investments under the Investment Company Act of 1940 (2a-7 Puts). The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and remains widely used.

AIGFP has adapted the BET model to estimate the price of the super senior risk layer or tranche of the CDO. AIG modified the BET model to imply default probabilities from market prices for the underlying securities and not from rating agency assumptions. To generate the estimate, the model uses the price estimates for the securities comprising the portfolio of a CDO as an input and converts those estimates to credit spreads over current LIBOR-based interest rates. These credit spreads are used to determine implied probabilities of default and expected losses on the underlying securities. This data is then aggregated and used to estimate the expected cash flows of the super senior tranche of the CDO.

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. CDO collateral managers provided market prices for 63.4 percent of the underlying securities used in the valuation at March 31, 2010. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates. AIGFP employs a Monte Carlo simulation to assist in quantifying the effect on the valuation of the CDO of the unique aspects of the CDO's structure such as triggers that divert cash flows to the most senior part of the capital structure. The Monte Carlo simulation is used to determine whether an underlying security defaults in a given simulation scenario and, if it does, the security's implied random default time and expected loss. This information is used to project cash flow streams and to determine the expected losses of the portfolio.

In addition to calculating an estimate of the fair value of the super senior CDO security referenced in the credit default swaps using its internal model, AIGFP also considers the price estimates for the super senior CDO securities provided by third parties, including counterparties to these transactions, to validate the results of the model and to determine the best available estimate of fair value. In determining the fair value of the super senior CDO security referenced in the credit default swaps, AIGFP uses a consistent process which considers all available pricing data points and eliminates the use of outlying data points. When pricing data points are within a reasonable range an averaging technique is applied.

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*Corporate debt/Collateralized loan obligation (CLO) portfolios:* In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIGFP uses a mathematical model that produces results that are closely aligned with prices received from third parties. This methodology is widely used by other market participants and uses the current market credit spreads of the names in the portfolios along with the base correlations implied by the current market prices of comparable tranches of the relevant market traded credit indices as inputs. One transaction, representing one percent of the total notional amount of the corporate arbitrage transactions, is valued using third party quotes given its unique attributes.

AIGFP estimates the fair value of its obligations resulting from credit default swaps written on CLOs to be equivalent to the par value less the current market value of the referenced obligation. Accordingly, the value is determined by obtaining third-party quotes on the underlying super senior tranches referenced under the credit default swap contract.

***Policyholder Contract Deposits***

Policyholder contract deposits accounted for at fair value are measured using an earnings approach by taking into consideration the following factors:

Current policyholder account values and related surrender charges;

The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors; and

A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

The change in fair value of these policyholder contract deposits is recorded as Policyholder benefits and claims incurred in the Consolidated Statement of Income (Loss).

***Securities and spot commodities sold but not yet purchased***

Fair values for securities sold but not yet purchased are based on current market prices. Fair values of spot commodities sold but not yet purchased are based on current market prices of reference spot futures contracts traded on exchanges.

***Other long-term debt***

When fair value accounting has been elected, the fair value of non-structured liabilities is generally determined by using market prices from exchange or dealer markets, when available, or discounting expected cash flows using the appropriate discount rate for the applicable maturity. The discount rate is based on an implicit rate determined with the use of observable CDS market spreads to determine the risk of non-performance for AIG. Such instruments are generally classified in Level 2 of the fair value hierarchy as substantially all inputs are readily observable. AIG determines the fair value of structured liabilities (where performance is linked to structured interest rates, inflation or currency risks) and hybrid financial instruments (performance linked to risks other than interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. Such instruments are classified in Level 2 or Level 3 depending on the observability of significant inputs to the model. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect AIG's own credit worthiness based on observable credit spreads of AIG.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

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

At March 31, 2010 (in millions)	Level 1	Level 2	Level 3	Counterparty Netting <sup>(a)</sup>	Cash Collateral <sup>(b)</sup>	Total
<b>Assets:</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 100	\$ 4,756	\$ -	\$ -	\$ -	\$ 4,856
Obligations of states, municipalities and Political subdivisions	320	50,885	948	-	-	52,153
Non-U.S. governments	197	23,615	5	-	-	23,817
Corporate debt	-	130,435	3,917	-	-	134,352
Residential mortgage-backed securities (RMBS)	-	20,387	6,832	-	-	27,219
Commercial mortgage-backed securities (CMBS)	-	3,549	4,396	-	-	7,945
Collateralized Debt Obligations/Asset Backed Securities (CDO/ABS)	-	1,952	4,576	-	-	6,528
<b>Total bonds available for sale</b>	<b>617</b>	<b>235,579</b>	<b>20,674</b>	<b>-</b>	<b>-</b>	<b>256,870</b>
Bond trading securities:						
U.S. government and government sponsored entities	433	6,313	-	-	-	6,746
Obligations of states, municipalities and Political subdivisions	-	348	-	-	-	348
Non-U.S. governments	1	395	2	-	-	398
Corporate debt	-	1,658	7	-	-	1,665
RMBS	-	2,534	5	-	-	2,539
CMBS	-	2,282	294	-	-	2,576
CDO/ABS	-	4,198	7,895	-	-	12,093
<b>Total bond trading securities</b>	<b>434</b>	<b>17,728</b>	<b>8,203</b>	<b>-</b>	<b>-</b>	<b>26,365</b>
Equity securities available for sale:						
Common stock	4,219	7	36	-	-	4,262
Preferred stock	-	685	52	-	-	737
Mutual funds	1,800	32	-	-	-	1,832
<b>Total equity securities available for sale</b>	<b>6,019</b>	<b>724</b>	<b>88</b>	<b>-</b>	<b>-</b>	<b>6,831</b>
Equity securities trading:						
Common stock	416	95	1	-	-	512
Mutual funds	101	-	-	-	-	101
<b>Total equity securities trading</b>	<b>517</b>	<b>95</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>613</b>
Mortgage and other loans receivable	-	157	-	-	-	157
Other invested assets <sup>(c)</sup>	1,432	2,869	5,853	-	-	10,154
Unrealized gain on swaps, options and forward transactions:						
Interest rate contracts	-	26,308	207	-	-	26,515
Foreign exchange contracts	-	393	32	-	-	425
Equity contracts	59	567	202	-	-	828
Commodity contracts	-	46	20	-	-	66

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Credit contracts	-	3	556	-	-	559
Other contracts	4	562	72	-	-	638
Counterparty netting and cash collateral	-	-	-	(16,816)	(4,832)	(21,648)
<b>Total unrealized gain on swaps, options and forward transactions</b>	<b>63</b>	<b>27,879</b>	<b>1,089</b>	<b>(16,816)</b>	<b>(4,832)</b>	<b>7,383</b>
Securities purchased under agreements to resell	-	1,615	-	-	-	1,615
Short-term investments	3,986	18,198	-	-	-	22,184
Separate account assets	49,740	2,213	-	-	-	51,953
Other assets	-	13	-	-	-	13
<b>Total</b>	<b>\$ 62,808</b>	<b>\$ 307,070</b>	<b>\$ 35,908</b>	<b>\$ (16,816)</b>	<b>\$ (4,832)</b>	<b>\$ 384,138</b>
<b>Liabilities:</b>						
Policyholder contract deposits	\$ -	\$ -	\$ 641	\$ -	\$ -	\$ 641
Securities sold under agreements to repurchase	-	3,418	-	-	-	3,418
Securities and spot commodities sold but not yet purchased	303	155	-	-	-	458
<b>Unrealized loss on swaps, options and forward transactions:</b>						
Interest rate contracts	-	20,214	1,493	-	-	21,707
Foreign exchange contracts	-	702	3	-	-	705
Equity contracts	3	631	147	-	-	781
Commodity contracts	-	53	-	-	-	53
Credit contracts <sup>(d)</sup>	-	41	5,466	-	-	5,507
Other contracts	-	218	202	-	-	420
Counterparty netting and cash collateral	-	-	-	(16,816)	(6,061)	(22,877)
<b>Total unrealized loss on swaps, options and forward transactions</b>	<b>3</b>	<b>21,859</b>	<b>7,311</b>	<b>(16,816)</b>	<b>(6,061)</b>	<b>6,296</b>
Trust deposits and deposits due to banks and other depositors	-	16	-	-	-	16
Federal Reserve Bank of New York Commercial Paper Funding Facility	-	2,285	-	-	-	2,285
Other long-term debt	-	11,677	1,123	-	-	12,800
<b>Total</b>	<b>\$ 306</b>	<b>\$ 39,410</b>	<b>\$ 9,075</b>	<b>\$ (16,816)</b>	<b>\$ (6,061)</b>	<b>\$ 25,914</b>

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

At December 31, 2009

(in millions)

	Level 1	Level 2	Level 3	Counterparty Netting <sup>(a)</sup>	Cash Collateral <sup>(b)</sup>	Total
<b>Assets:</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 146	\$ 5,077	\$ -	\$ -	\$ -	\$ 5,223
Obligations of states, municipalities and Political subdivisions	219	53,270	613	-	-	54,102
Non-U.S. governments	312	64,519	753	-	-	65,584
Corporate debt	10	187,337	4,791	-	-	192,138
Residential mortgage-backed securities (RMBS)	-	21,670	6,654	-	-	28,324
Commercial mortgage-backed securities (CMBS)	-	8,350	4,939	-	-	13,289
Collateralized Debt Obligations/Asset Backed Securities (CDO/ABS)	-	2,167	4,724	-	-	6,891
<b>Total bonds available for sale</b>	<b>687</b>	<b>342,390</b>	<b>22,474</b>	<b>-</b>	<b>-</b>	<b>365,551</b>
Bond trading securities:						
U.S. government and government sponsored entities	394	6,317	16	-	-	6,727
Obligations of states, municipalities and Political subdivisions	-	371	-	-	-	371
Non-U.S. governments	2	1,363	56	-	-	1,421
Corporate debt	-	5,205	121	-	-	5,326
RMBS	-	3,671	4	-	-	3,675
CMBS	-	2,152	325	-	-	2,477
CDO/ABS	-	4,381	6,865	-	-	11,246
<b>Total bond trading securities</b>	<b>396</b>	<b>23,460</b>	<b>7,387</b>	<b>-</b>	<b>-</b>	<b>31,243</b>
Equity securities available for sale:						
Common stock	7,254	9	35	-	-	7,298
Preferred stock	-	760	54	-	-	814
Mutual funds	1,348	56	6	-	-	1,410
<b>Total equity securities available for sale</b>	<b>8,602</b>	<b>825</b>	<b>95</b>	<b>-</b>	<b>-</b>	<b>9,522</b>
Equity securities trading:						
Common stock	1,254	104	1	-	-	1,359
Mutual funds	6,460	492	7	-	-	6,959
<b>Total equity securities trading</b>	<b>7,714</b>	<b>596</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>8,318</b>
Mortgage and other loans receivable	-	119	-	-	-	119
Other invested assets <sup>(c)</sup>	3,322	8,656	6,910	-	-	18,888
Unrealized gain on swaps, options and forward transactions	123	32,617	1,761	(19,054)	(6,317)	9,130
Securities purchased under agreements to resell	-	2,154	-	-	-	2,154
Short-term investments	1,898	22,077	-	-	-	23,975
Separate account assets	56,165	1,984	1	-	-	58,150
Other assets	-	18	270	-	-	288
<b>Total</b>	<b>\$ 78,907</b>	<b>\$ 434,896</b>	<b>\$ 38,906</b>	<b>\$ (19,054)</b>	<b>\$ (6,317)</b>	<b>\$ 527,338</b>
<b>Liabilities:</b>						
Policyholder contract deposits	\$ -	\$ -	\$ 5,214	\$ -	\$ -	\$ 5,214



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Securities sold under agreements to repurchase	-	3,221	-	-	-	3,221
Securities and spot commodities sold but not yet purchased	159	871	-	-	-	1,030
Unrealized loss on swaps, options and forward transactions <sup>(d)</sup>	8	24,789	7,826	(19,054)	(8,166)	5,403
Trust deposits and deposits due to banks and other depositors	-	15	-	-	-	15
Federal Reserve Bank of New York Commercial Paper Funding Facility	-	2,742	-	-	-	2,742
Other long-term debt	-	12,314	881	-	-	13,195
<b>Total</b>	<b>\$ 167</b>	<b>\$ 43,952</b>	<b>\$ 13,921</b>	<b>\$ (19,054)</b>	<b>\$ (8,166)</b>	<b>\$ 30,820</b>

- (a) *Represents netting of derivative exposures covered by a qualifying master netting agreement.*
- (b) *Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were \$1.4 billion and \$125 million, respectively, at March 31, 2010 and \$1.6 billion and \$289 million, respectively, at December 31, 2009.*
- (c) *Approximately 5 percent and 6 percent of the fair value of the assets recorded as Level 3 relates to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at March 31, 2010 and December 31, 2009, respectively. AIG's ownership in these funds represented 51.7 percent, or \$0.8 billion, of Level 3 assets at March 31, 2010 and 71.1 percent, or \$1.6 billion, of Level 3 assets at December 31, 2009.*
- (d) *Included in Level 3 is the fair value derivative liability of \$4.6 billion and \$4.8 billion at March 31, 2010 and December 31, 2009, respectively, on the AIGFP super senior credit default swap portfolio.*

**Transfers of Level 1 and Level 2 Assets and Liabilities**

AIG had no significant transfers between Level 1 and Level 2 during the three-month period ended March 31, 2010.

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**Changes in Level 3 Recurring Fair Value Measurements**

The following tables present changes during the three-month periods ended March 31, 2010 and 2009 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in the Consolidated Statement of Income (Loss) during those periods related to the Level 3 assets and liabilities that remained on the Consolidated Balance Sheet at March 31, 2010 and 2009:

(in millions)	Balance Beginning of Period <sup>(a)</sup>	Net Realized and Unrealized Gains (Losses) Included in Income <sup>(b)</sup>	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements-Net	Activity of Discontinued Operations	Reclassified to Assets of Businesses Held for Sale	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period	
<b>Three Months Ended March 31, 2010</b>									
<b>Assets:</b>									
Bonds available for sale:									
Obligations of states, municipalities and political subdivisions	\$ 613	\$ (14)	\$ (7)	\$ 109	\$ 257	\$ (10)	\$ -	\$ 948	\$ -
Non-U.S. governments	753	-	-	-	-	35	(783)	5	-
Corporate debt	4,791	(19)	86	(67)	(660)	(47)	(167)	3,917	-
RMBS	6,654	(119)	442	(142)	31	(3)	(31)	6,832	-
CMBS	4,939	(480)	816	(133)	509	306	(1,561)	4,396	-
CDO/ABS	4,724	21	234	(16)	31	27	(445)	4,576	-
Total bonds available for sale	22,474	(611)	1,571	(249)	168	308	(2,987)	20,674	-
Bond trading securities:									
U.S. government and government sponsored entities	16	-	-	-	-	(16)	-	-	-
Non-U.S. governments	56	-	-	(50)	2	-	(6)	2	-
Corporate debt	121	1	-	-	-	(5)	(110)	7	1
RMBS	4	1	-	-	-	-	-	5	1
CMBS	325	40	-	(7)	34	2	(100)	294	101
CDO/ABS	6,865	1,117	-	(87)	-	20	(20)	7,895	549
Total bond trading securities	7,387	1,159	-	(144)	36	1	(236)	8,203	652
Equity securities available for sale:									
Common stock	35	(2)	5	1	-	-	(3)	36	-
Preferred stock	54	(5)	2	-	1	-	-	52	-
Mutual funds	6	-	-	-	-	-	(6)	-	-
Total equity securities available for sale	95	(7)	7	1	1	-	(9)	88	-

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Equity securities trading:										
Common stock	1	-	-	-	-	-	-	1	-	-
Mutual funds	7	-	-	-	-	(1)	(6)	-	-	-
Total equity securities trading	8	-	-	-	-	(1)	(6)	1	-	-
Other invested assets	6,910	(131)	283	(926)	(98)	(3)	(182)	5,853	(28)	
Other assets	270	-	-	(270)	-	-	-	-	-	
Separate account assets	1	-	-	-	-	-	(1)	-	-	
Total	\$ 37,145	\$ 410	\$ 1,861	\$ (1,588)	\$ 107	\$ 305	\$ (3,421)	\$ 34,819	\$ 624	

**Liabilities:**

Policyholder contract deposits	\$ (5,214)	\$ 152	\$ -	\$ (38)	\$ -	\$ 32	\$ 4,427	\$ (641)	\$ (141)	
Unrealized loss on swaps, options and forward transactions, net:										
Interest rate contracts	(1,469)	98	-	96	(11)	-	-	(1,286)	(167)	
Foreign exchange contracts	29	-	-	-	-	-	-	29	3	
Equity contracts	74	(10)	-	-	(9)	-	-	55	(6)	
Commodity contracts	22	(2)	-	-	-	-	-	20	(2)	
Credit contracts	(4,545)	164	-	(529)	-	-	-	(4,910)	165	
Other contracts	(176)	41	-	(3)	-	1	7	(130)	(3)	
Total unrealized loss on swaps, options and forward transactions, net	(6,065)	291	-	(436)	(20)	1	7	(6,222)	(10)	
Other long-term debt	(881)	(135)	-	555	(662)	-	-	(1,123)	136	
Total	\$ (12,160)	\$ 308	\$ -	\$ 81	\$ (682)	\$ 33	\$ 4,434	\$ (7,986)	\$ (15)	

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

<i>(in millions)</i>	Balance Beginning of Period <sup>(a)</sup>	Net Realized and Unrealized Gains (Losses) Included in Income <sup>(b)</sup>	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issuances and Settlements-Net	Transfers <sup>(c)</sup>	Activity of Discontinued Operations	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
<b>Three Months Ended March 31, 2009</b>								
<b>Assets:</b>								
Bonds available for sale	\$ 18,826	\$ (1,019)	\$ 614	\$ (898)	\$ 272	\$ 58	\$ 17,853	\$ -
Bond trading securities	6,987	(2,544)	-	(197)	49	(15)	4,280	(1,586)
Common and preferred stock available for sale	111	(3)	-	(3)	7	(12)	100	-
Common and preferred stock trading	3	-	-	-	-	3	6	-
Other invested assets	11,168	(936)	(687)	252	(109)	-	9,688	(980)
Other assets	325	6	-	(20)	-	-	311	6
Separate account assets	830	-	-	1	-	(34)	797	-
<b>Total</b>	<b>\$ 38,250</b>	<b>\$ (4,496)</b>	<b>\$ (73)</b>	<b>\$ (865)</b>	<b>\$ 219</b>	<b>\$ -</b>	<b>\$ 33,035</b>	<b>\$ (2,560)</b>
<b>Liabilities:</b>								
Policyholder contract deposits	\$ (5,458)	\$ 217	\$ -	\$ (19)	\$ -	\$ (297)	\$ (5,557)	\$ 2,094
Securities sold under agreements to repurchase	(85)	2	-	36	-	-	(47)	(12)
Unrealized loss on swaps, options and forward transactions, net	(10,570)	(1,312)	-	277	(252)	1	(11,856)	(1,069)
Other long-term debt	(1,147)	442	-	122	52	-	(531)	(420)
<b>Total</b>	<b>\$ (17,260)</b>	<b>\$ (651)</b>	<b>\$ -</b>	<b>\$ 416</b>	<b>\$ (200)</b>	<b>\$ (296)</b>	<b>\$ (17,991)</b>	<b>\$ 593</b>

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

(b) *Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the Consolidated Statement of Income (Loss) primarily as follows:*

**Major Category of Assets/Liabilities      Consolidated Statement of Income (Loss) Line Items**

Bonds available for sale	Net realized capital gains (losses)
Bond trading securities	Net investment income Other income
Other invested assets	Net realized capital gains (losses) Other income

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Policyholder contract deposits	Policyholder benefits and claims incurred Net realized capital gains (losses)
Unrealized loss on swaps, options and forward transactions, net	Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio Net realized capital gains (losses) Other income

(c)

*Transfers for the three months ended March 31, 2010 are comprised of gross transfers into Level 3 assets and liabilities of \$2.0 billion and gross transfers out of Level 3 assets and liabilities of \$1.2 billion. AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above exclude \$6.6 million of net losses related to assets and liabilities transferred into Level 3 during the period, and include \$33 million of net gains related to assets and liabilities transferred out of Level 3 during the period.*

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2010 and March 31, 2009 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

***Transfers of Level 3 Assets and Liabilities***

AIG's policy is to transfer assets and liabilities into Level 3 when a significant input cannot be corroborated with market observable data. This may include: circumstances in which market activity has dramatically decreased and transparency to underlying inputs cannot be observed, current prices are not available, and substantial price variances in quotations among market participants exist.

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability.

During the three-month period ended March 31, 2010, AIG transferred into Level 3 approximately \$1.2 billion of assets, consisting of certain ABS, CMBS and RMBS, as well as private placement corporate debt and certain municipal bonds related to SunAmerica Affordable Housing partnerships. A majority of the transfers into Level 3 related to investments in ABS, RMBS and CMBS and was due to a decrease in market transparency and downward credit migration in these securities. Transfers into Level 3 for private placement corporate debt are primarily the result of AIG overriding third party matrix pricing information downward to better reflect the additional risk premium associated with those securities that AIG believes was not captured in the matrix. Certain municipal bonds were transferred into Level 3 based on limited market activity for the particular issuances and related limitations on observable inputs for their valuation.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable, or when a long-term interest rate significant to a valuation becomes short-term and thus observable. During the three-month period ended March 31, 2010, AIG transferred approximately \$1.1 billion of assets out of Level 3. These transfers out of Level 3 are primarily related to investments in private placement corporate debt, as well as investments in certain ABS and RMBS. Transfers out of Level 3 for private placement corporate debt and for ABS were primarily the result of AIG using observable pricing information or a third party pricing quote that appropriately reflects the fair value of those securities, without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Transfers out of Level 3 for RMBS investments were primarily due to increased usage of pricing from valuation service providers that were reflective of market activity, where previously an internally adjusted price had been used.

During the three-month period ended March 31, 2010, AIG transferred into Level 3 approximately \$710 million of liabilities related to term notes and hybrid term notes, primarily due to an unobservable credit linked component comprising a significant amount of the valuations. The remaining \$64 million transfer in was due to movement in market variables. A majority of the transfers out of Level 3 liabilities, which totaled \$92 million, were due to recognition of the cash flow variability on interest rate and cross currency swaps with securitization vehicles. Other transfers out of Level 3 liabilities were due to movement in market variables.

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

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**Investments in certain entities carried at fair value using net asset value per share**

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

(in millions)	Investment Category Includes	March 31, 2010 <sup>(a)</sup>		December 31, 2009	
		Fair Value Using Net Asset Value	Unfunded Commitments	Fair Value Using Net Asset Value	Unfunded Commitments
<b>Investment Category</b>					
<i>Private equity funds:</i>					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage.	\$ 2,538	\$ 1,532	\$ 3,166	\$ 1,553
Non-U.S.	Investments that focus primarily on Asian and European based buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies.	360	105	543	103
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company.	281	47	427	48
Fund of funds	Funds that invest in other funds, which invest in various diversified strategies	794	166	616	40
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled.	215	94	238	91
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies.	230	130	223	117
<b>Total private equity funds</b>		<b>4,418</b>	<b>2,074</b>	<b>5,213</b>	<b>1,952</b>
<i>Hedge funds:</i>					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions, and other reorganizations.	718	-	1,373	-
Long-short	Securities the manager believes are undervalued, with corresponding short positions to hedge market risk.	352	-	825	-
Fund of funds	Funds that invest in other funds, which invest in various diversified strategies.	290	-	304	-
Relative value	Simultaneous long and short positions in closely related markets.	9	-	286	-
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled.	297	-	272	-
Other	Non-U.S. companies, futures and commodities, and multi-strategy and industry-focused strategies.	225	-	394	-
<b>Total hedge funds</b>		<b>1,891</b>	<b>-</b>	<b>3,454</b>	<b>-</b>
Global real estate funds	U.S. and Non-U.S. commercial real estate.	899	87	929	64
<b>Total</b>		<b>\$ 7,208<sup>(b)</sup></b>	<b>\$ 2,161</b>	<b>\$ 9,596<sup>(b)</sup></b>	<b>\$ 2,016</b>

(a) *Due to the sale of the investment advisory business, certain partnerships and hedge funds are no longer carried at net asset value per share.*

(b) *Includes investments of entities classified as held for sale of approximately \$0.1 billion and \$1.1 billion at March 31, 2010 and December 31, 2009, respectively.*

At March 31, 2010, private equity fund investments included above are not redeemable during the lives of the funds, and have expected remaining lives that extend in some cases more than 10 years. At that date, 43 percent of the total above have expected remaining lives of less than three years, 35 percent between 3 and 7 years, and



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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)

22 percent between 7 and 10 years. Expected lives are based upon legal maturity, which can be extended at the general manager's discretion, typically in one year increments.

At March 31, 2010, hedge fund investments included above are redeemable monthly (11 percent), quarterly (34 percent), semi-annually (11 percent) and annually (44 percent), with redemption notices ranging from 1 day to 180 days. More than 77 percent require redemption notices of less than 90 days. Investments representing approximately 14 percent of the value of the hedge fund investments cannot be redeemed because the investments include restrictions that do not allow for redemptions within a pre-defined timeframe. These restrictions expire no later than December 31, 2012. Funds that equate to 62 percent of the total value of hedge funds hold at least one investment that the general manager deems to be illiquid. In order to treat investors fairly and to accommodate subsequent subscription and redemption requests, the general manager isolates these illiquid assets from the rest of the fund until the assets become liquid.

At March 31, 2010, global real estate fund investments included above are not redeemable during the lives of the funds, and have expected remaining lives that extend in some cases more than 10 years. Twelve percent of these funds have expected remaining lives of less than three years, 69 percent between 3 and 7 years, and 19 percent between 7 and 10 years. Expected lives are based upon legal maturity, which can be extended at the general manager's discretion, typically in one year increments.

**Fair Value Measurements on a Non-Recurring Basis**

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, life settlement contracts, flight equipment primarily under operating leases, collateral securing foreclosed loans and real estate and other fixed assets, goodwill, and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

*Cost and Equity-Method Investments:* When AIG determines that the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in earnings. In such cases, AIG measures the fair value of these assets using the techniques discussed in Valuation Methodologies, above, for Other invested assets.

*Life Settlement Contracts:* AIG measures the fair value of individual life settlement contracts (which are included in other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flow basis, incorporating current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG's estimate of the risk margin an investor in the contracts would require.

*Flight Equipment Primarily Under Operating Leases:* When AIG determines the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in earnings. AIG measures the fair value of its commercial aircraft using an earnings approach based on the present value of all cash flows from existing and projected lease payments (based on historical experience and current expectations regarding market participants), including net contingent rentals for the period extending to the end of the aircraft's economic life in its highest and best use configuration, plus its disposition value.

*Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets:* When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate of fair value on the price that would be received in a current transaction to sell the asset by itself, by reference to observable transactions for similar assets.



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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

*Goodwill:* AIG tests goodwill annually for impairment or more frequently whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When AIG determines goodwill may be impaired, AIG uses techniques including market-based earning multiples of peer companies, discounted expected future cash flows, appraisals, or, in the case of reporting units being considered for sale, third-party indications of fair value of the reporting unit, if available, to determine the amount of any impairment.

*Long-Lived Assets:* AIG tests its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of a long-lived asset may not be recoverable. AIG measures the fair value of long-lived assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise.

*Finance Receivables:*

*Originated as held for sale* AIG determines the fair value of finance receivables originated as held for sale by reference to available market indicators such as current investor yield requirements, outstanding forward sale commitments, or negotiations with prospective purchasers, if any.

*Originated as held for investment* AIG determines the fair value of finance receivables originated as held for investment based on negotiations with prospective purchasers, if any, or by using projected cash flows discounted at the weighted average interest rates offered in the marketplace for similar finance receivables. Cash flows are projected based on contractual payment terms, adjusted for delinquencies and estimates of prepayments and credit-related losses.

*Businesses Held for Sale:* When AIG determines that a business qualifies as held for sale and AIG's carrying amount is greater than the sale price less cost to sell, AIG records an impairment loss for the difference.

The following table presents assets measured at fair value on a non-recurring basis on which impairment charges were recorded, and the related impairment charges:

(in millions)	Assets at Fair Value				Impairment Charges	
	Non-Recurring Basis				Three Months Ended March 31,	
	Level 1	Level 2	Level 3	Total	2010	2009
<b>At March 31, 2010</b>						
Investment real estate	\$ -	\$ -	\$ 2,804	\$ 2,804	\$ 284	\$ 158
Other investments	-	-	757	757	73	290
Aircraft	-	-	1,881	1,881	347	-
Other assets	-	-	173	173	18	72
Total	\$ -	\$ -	\$ 5,615	\$ 5,615	\$ 722	\$ 520
<b>At December 31, 2009</b>						
Investment real estate	\$ -	\$ -	\$ 3,148	\$ 3,148		

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Finance receivables	-	-	694	694
Other investments	99	-	1,005	1,104
Aircraft	-	-	62	62
Other assets	-	85	227	312
<b>Total</b>	\$ 99	\$ 85	\$ 5,136	\$ 5,320

The fair value disclosed in the table above is unadjusted for transaction costs. The amounts recorded on the consolidated balance sheet are net of transaction costs.

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)***Fair Value Option**

AIG may choose to measure at fair value many financial instruments and certain other assets and liabilities that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings. Unrealized gains and losses on financial instruments in AIG's insurance businesses and in AIGFP for which the fair value option was elected are classified in Other income in the Consolidated Statement of Income (Loss).

The following table presents the gains or losses recorded during the three-month periods ended March 31, 2010 and 2009 related to the eligible instruments for which AIG elected the fair value option:

<i>(in millions)</i>	Gain (Loss) Three Months Ended	
	2010	2009
<b>Assets:</b>		
Mortgage and other loans receivable	\$ 40	\$ (47)
Trading securities	1,437	(1,671)
Trading Maiden Lane Interests	911	(2,194)
Securities purchased under agreements to resell	(4)	(16)
Other invested assets	(10)	(22)
Short-term investments	-	(2)
<b>Liabilities:</b>		
Securities sold under agreements to repurchase	52	121
Securities and spot commodities sold but not yet purchased	(18)	(34)
Trust deposits and deposits due to banks and other depositors	-	11
Debt	(485)	2,587
Other liabilities	-	138
<b>Total gain (loss)<sup>(a)(b)</sup></b>	<b>\$ 1,923</b>	<b>\$ (1,129)</b>

(a) Excludes businesses held for sale in the Consolidated Balance Sheet.

(b) Not included in the table above were gains of \$13 million and \$1.4 billion for the three-month periods ended March 31, 2010 and 2009, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option was not elected. Included in these amounts were unrealized market valuation gains of \$119 million and unrealized market valuation losses of \$452 million for the three-month periods ended March 31, 2010 and 2009, respectively, related to AIGFP's super senior credit default swap portfolio.

Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the Consolidated Statement of Income (Loss) depending on the nature of the instrument and related market conventions. For AIGFP related activity, interest, dividend income, and interest expense are included in Other income. Otherwise, interest and dividend income are included in Net investment income in the Consolidated Statement of Income (Loss). See Note 1(a) to the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K for additional information about AIG's policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

During the three-month periods ended March 31, 2010 and 2009, AIG recognized a loss of \$378 million and a gain of \$1.2 billion, respectively, attributable to the observable effect of changes in credit spreads on AIG's own liabilities for which the fair value option was

elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG's observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as collateral posted.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)

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

(in millions)	At March 31, 2010			At December 31, 2009		
	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
<b>Assets:</b>						
Mortgage and other loans receivable	\$ 157	\$ 258	\$ (101)	\$ 119	\$ 253	\$ (134)
<b>Liabilities:</b>						
Long-term debt	\$ 11,094	\$ 9,755	\$ 1,339	\$ 11,308	\$ 10,111	\$ 1,197

At March 31, 2010 and December 31, 2009, there were no significant mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

**Fair Value Information about Financial Instruments Not Measured at Fair Value**

Information regarding the estimation of fair value for financial instruments not carried at fair value (excluding insurance contracts and lease contracts) is discussed below:

*Mortgage and other loans receivable:* Fair values of loans on real estate and collateral loans were estimated for disclosure purposes using discounted cash flow calculations based upon discount rates that AIG believes market participants would use in determining the price they would pay for such assets. For certain loans, AIG's current incremental lending rates for similar type loans is used as the discount rate, as it is believed that this rate approximates the rates market participants would use. The fair values of policy loans were not estimated as AIG believes it would have to expend excessive costs for the benefits derived.

*Finance receivables:* Fair values of net finance receivables, less allowance for finance receivable losses, were estimated for disclosure purposes using projected cash flows, computed by category of finance receivable, discounted at the weighted average interest rates offered for similar finance receivables at the balance sheet date. Cash flows were projected based on contractual payment terms adjusted for delinquencies and estimates of losses. The fair value estimates do not reflect the underlying customer relationships or the related distribution systems.

*Cash, short-term investments, trade receivables, trade payables, securities purchased (sold) under agreements to resell (repurchase), and commercial paper and other short-term debt:* The carrying values of these assets and liabilities approximate fair values because of the relatively short period of time between origination and expected realization.

*Policyholder contract deposits associated with investment-type contracts:* Fair values for policyholder contract deposits associated with investment-type contracts not accounted for at fair value were estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. Where no similar contracts are being offered, the discount rate is the appropriate tenor swap rates (if available) or current risk-free interest rates consistent with the currency in which the cash flows are denominated.

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*Trust deposits and deposits due to banks and other depositors:* The fair values of certificates of deposit which mature in more than one year are estimated for disclosure purposes using discounted cash flow calculations based upon interest rates currently offered for deposits with similar maturities. For demand deposits and certificates of deposit which mature in less than one year, carrying values approximate fair value.

*Long-term debt:* Fair values of these obligations were determined for disclosure purposes by reference to quoted market prices, where available and appropriate, or discounted cash flow calculations based upon



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

AIG's current market-observable implicit-credit-spread rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The following table presents the carrying value and estimated fair value of AIG's financial instruments:

<i>(in millions)</i>	March 31, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Assets:</b>				
Fixed maturities	\$ 283,235	\$ 283,235	\$ 396,794	\$ 396,794
Equity securities	7,444	7,444	17,840	17,840
Mortgage and other loans receivable	22,533	21,536	27,461	25,957
Finance receivables, net of allowance	18,912	17,234	20,327	18,974
Other invested assets*	31,784	30,776	43,737	42,474
Securities purchased under agreements to resell	1,615	1,615	2,154	2,154
Short-term investments	38,800	38,800	47,263	47,263
Cash	2,133	2,133	4,400	4,400
Unrealized gain on swaps, options and forward transactions	7,383	7,383	9,130	9,130
<b>Liabilities:</b>				
Policyholder contract deposits associated with investment-type contracts	108,096	115,581	168,846	175,612
Securities sold under agreements to repurchase	3,418	3,418	3,505	3,505
Securities and spot commodities sold but not yet purchased	458	458	1,030	1,030
Unrealized loss on swaps, options and forward transactions	6,296	6,296	5,403	5,403
Trust deposits and deposits due to banks and other depositors	1,030	1,030	1,641	1,641
Federal Reserve Bank of New York Commercial Paper Funding Facility	2,285	2,285	4,739	4,739
Federal Reserve Bank of New York credit facility	27,400	27,916	23,435	23,390
Other long-term debt	109,744	108,707	113,298	94,458

\*

*Excludes aircraft asset investments held by non-Financial Services subsidiaries.*

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**6. Investments****Securities Available for Sale**

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

<i>(in millions)</i>	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than- Temporary Impairments in AOCI <sup>(a)</sup>
<b>March 31, 2010</b>					
Bonds available for sale:					
U.S. government and government sponsored entities	\$ 4,777	\$ 106	\$ (27)	\$ 4,856	\$ -
Obligations of states, municipalities and political subdivisions	50,427	2,018	(292)	52,153	-
Non-U.S. governments	23,305	725	(213)	23,817	(1)
Corporate debt	127,707	8,507	(1,862)	134,352	14
Mortgage-backed, asset-backed and collateralized:					
RMBS	30,089	1,027	(3,897)	27,219	(1,595)
CMBS	10,869	256	(3,180)	7,945	(451)
CDO/ABS	7,242	324	(1,038)	6,528	64
Total mortgage-backed, asset-backed and collateralized	48,200	1,607	(8,115)	41,692	(1,982)
Total bonds available for sale <sup>(b)</sup>	254,416	12,963	(10,509)	256,870	(1,969)
Equity securities available for sale:					
Common stock	2,511	1,770	(19)	4,262	-
Preferred stock	635	103	(1)	737	-
Mutual funds	1,736	102	(6)	1,832	-
Total equity securities available for sale	4,882	1,975	(26)	6,831	-
Total <sup>(c)</sup>	\$ 259,298	\$ 14,938	\$ (10,535)	\$ 263,701	\$ (1,969)

December 31, 2009

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Bonds available for sale:

U.S. government and government sponsored entities	\$ 5,098	\$ 174	\$ (49)	\$ 5,223	\$ -
Obligations of states, municipalities and political subdivisions	52,324	2,163	(385)	54,102	-
Non-U.S. governments	63,080	3,153	(649)	65,584	(1)
Corporate debt	185,188	10,826	(3,876)	192,138	119
Mortgage-backed, asset-backed and collateralized:					
RMBS	32,173	991	(4,840)	28,324	(2,121)
CMBS	18,717	195	(5,623)	13,289	(739)
CDO/ABS	7,911	284	(1,304)	6,891	(63)
Total mortgage-backed, asset-backed and collateralized	58,801	1,470	(11,767)	48,504	(2,923)
Total bonds available for sale <sup>(b)</sup>	364,491	17,786	(16,726)	365,551	(2,805)
Equity securities available for sale:					
Common stock	4,460	2,913	(75)	7,298	-
Preferred stock	740	94	(20)	814	-
Mutual funds	1,264	182	(36)	1,410	-
Total equity securities available for sale	6,464	3,189	(131)	9,522	-
Total <sup>(c)</sup>	\$ 370,955	\$ 20,975	\$ (16,857)	\$ 375,073	\$ (2,805)

(a) Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive income, which, starting on April 1, 2009, were not included in earnings. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

(b) At March 31, 2010 and December 31, 2009, bonds available for sale held by AIG that were below investment grade or not rated totaled \$18.2 billion and \$24.5 billion, respectively.

(c) Excludes \$163.0 billion and \$36.1 billion of available for sale investments at fair value from businesses held for sale at March 31, 2010 and December 31, 2009, respectively. See Note 3 herein.

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)*Unrealized losses on Securities Available for Sale*

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

(in millions)	12 Months or Less		More than 12 Months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>March 31, 2010*</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 2,088	\$ 21	\$ 123	\$ 6	\$ 2,211	\$ 27
Obligations of states, municipalities and political subdivisions	4,885	100	3,003	192	7,888	292
Non-U.S. governments	3,851	110	824	103	4,675	213
Corporate debt	16,165	640	13,341	1,222	29,506	1,862
RMBS	4,876	1,609	7,572	2,288	12,448	3,897
CMBS	1,854	1,224	3,428	1,956	5,282	3,180
CDO/ABS	1,441	379	2,443	659	3,884	1,038
<b>Total bonds available for sale</b>	<b>35,160</b>	<b>4,083</b>	<b>30,734</b>	<b>6,426</b>	<b>65,894</b>	<b>10,509</b>
Equity securities available for sale:						
Common stock	152	19	-	-	152	19
Preferred stock	7	1	-	-	7	1
Mutual funds	109	6	-	-	109	6
<b>Total equity securities available for sale</b>	<b>268</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>268</b>	<b>26</b>
<b>Total</b>	<b>\$ 35,428</b>	<b>\$ 4,109</b>	<b>\$ 30,734</b>	<b>\$ 6,426</b>	<b>\$ 66,162</b>	<b>\$ 10,535</b>
<b>December 31, 2009*</b>						
Bonds available for sale:						
U.S. government and government sponsored entities	\$ 1,414	\$ 35	\$ 105	\$ 14	\$ 1,519	\$ 49
Obligations of states, municipalities and political subdivisions	5,405	132	3,349	253	8,754	385
Non-U.S. governments	7,842	239	3,286	410	11,128	649
Corporate debt	24,696	1,386	22,139	2,490	46,835	3,876
RMBS	7,135	3,051	6,352	1,789	13,487	4,840
CMBS	5,013	3,927	4,528	1,696	9,541	5,623
CDO/ABS	2,809	1,119	1,693	185	4,502	1,304
<b>Total bonds available for sale</b>	<b>54,314</b>	<b>9,889</b>	<b>41,452</b>	<b>6,837</b>	<b>95,766</b>	<b>16,726</b>
Equity securities available for sale:						
Common stock	933	75	-	-	933	75
Preferred stock	172	20	-	-	172	20
Mutual funds	333	36	-	-	333	36

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Total equity securities available for sale	<b>1,438</b>	<b>131</b>	<b>-</b>	<b>-</b>	<b>1,438</b>	<b>131</b>
Total	\$ 55,752	\$ 10,020	\$ 41,452	\$ 6,837	\$ 97,204	\$ 16,857

\*  
*Excludes fixed maturity and equity securities of businesses held for sale. See Note 3 herein.*

At March 31, 2010, AIG held 8,229 and 392 of individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 3,945 individual securities were in a continuous unrealized loss position for longer than twelve months.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)

AIG did not recognize in earnings the unrealized losses on these fixed maturity securities at March 31, 2010, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

**Contractual Maturities**

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

March 31, 2010 (in millions)	Total Fixed Maturity Available for Sale Securities		Fixed Maturity Securities in a Loss Position	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 10,516	\$ 10,766	\$ 1,698	\$ 1,666
Due after one year through five years	52,935	55,234	11,151	10,538
Due after five years through ten years	64,693	67,641	12,825	12,239
Due after ten years	78,072	81,537	21,000	19,837
Mortgage-backed, asset-backed and collateralized	48,200	41,692	29,729	21,614
Total	\$ 254,416	\$ 256,870	\$ 76,403	\$ 65,894

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

The following table presents the gross realized gains and gross realized losses from sales of AIG's available for sale securities:

(in millions)	Three Months Ended March 31,			
	2010		2009	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
Fixed maturities	\$ 369	\$ 74	\$ 355	\$ 355
Equity securities	114	4	63	120
Total	\$ 483	\$ 78	\$ 418	\$ 475

For the three-month period ended March 31, 2010, the aggregate fair value of available for sale securities sold at a loss was \$883 million, which resulted in a net realized capital loss of \$63 million. The average periods of time that securities sold at a loss during the three-month period ended March 31, 2010 were trading continuously at a price below cost or amortized cost was approximately four months.

**Evaluating Investments for Other-Than-Temporary Impairments**

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On April 1, 2009, AIG adopted a new accounting standard on a prospective basis addressing the evaluation of fixed maturity securities for other-than-temporary impairments. These requirements have significantly altered AIG's policies and procedures for determining impairment charges recognized through earnings. The new standard requires a company to recognize the credit component (a credit impairment) of an other-than-temporary

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

impairment of a fixed maturity security in earnings and the non-credit component in Accumulated other comprehensive income when the company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The new standard also changes the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold the security until recovery and requires additional disclosures. A credit impairment, which is recognized in earnings when it occurs, is the difference between the amortized cost of the fixed maturity security and the estimated present value of cash flows expected to be collected (recovery value), as determined by management. The difference between fair value and amortized cost that is not related to a credit impairment is recognized as a separate component of Accumulated other comprehensive income (loss). AIG refers to both credit impairments and impairments recognized as a result of intent to sell as "impairment charges." The impairment model for equity securities was not affected by the new standard.

***Impairment Policy Effective April 1, 2009 and Thereafter***

*Fixed Maturity Securities*

If AIG intends to sell a fixed maturity security or it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to earnings.

For all other fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recovery value with a corresponding charge to earnings. Changes in fair value compared to recovery value, if any, are charged to unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken (a component of Accumulated other comprehensive income (loss)).

When assessing AIG's intent to sell a fixed maturity security, or whether it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis, management evaluates relevant facts and circumstances including, but not limited to, decisions to reposition AIG's investment portfolio, sales of securities to meet cash flow needs and sales of securities to capitalize on favorable pricing.

AIG considers severe price declines and the duration of such price declines in its assessment of potential credit impairments. AIG also modifies its modeled outputs for certain securities when it determines that price declines are indicative of factors not accounted for in the cash flow models.

In periods subsequent to the recognition of an other-than-temporary impairment charge that is not foreign exchange related for available for sale fixed maturity securities, AIG generally prospectively accretes into earnings over the remaining expected holding period of the security the difference between the new amortized cost and the expected undiscounted recovery value.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)**Credit Impairments*

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by AIG<sup>(a)</sup>:

*(in millions)*

<b>Three Months Ended March 31, 2010</b>	
Balance, beginning of year	\$ 7,803
Increases due to:	
Credit impairments on new securities subject to impairment losses	137
Additional credit impairments on previously impaired securities	601
Reductions due to:	
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	(381)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	(2)
Accretion on securities previously impaired due to credit <sup>(b)</sup>	(95)
Foreign exchange translation adjustments	(5)
Activity of discontinued operations	(76)
Impairments on securities reclassified to Assets of businesses held for sale	(709)
<b>Balance, end of period</b>	<b>\$ 7,273</b>

(a) *Includes structured, corporate, municipal and sovereign fixed maturity securities.*

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

In assessing whether a credit impairment has occurred for a structured fixed maturity security, AIG performs evaluations of expected future cash flows. Certain critical assumptions are made with respect to the performance of the securities.

When estimating future cash flows for a structured fixed maturity security (e.g. RMBS, CMBS, CDO, ABS) management considers historical performance of underlying assets and available market information as well as bond-specific structural considerations, such as credit enhancement and priority of payment structure of the security. In addition, the process of estimating future cash flows includes, but is not limited to, the following critical inputs, which vary by asset class:

Current delinquency rates;

Expected default rates and timing of such defaults;

Loss severity and timing of any such recovery;

Expected prepayment speeds; and

Ratings of securities underlying structured products.

For corporate, municipal and sovereign fixed maturity securities determined to be credit impaired, management considers the fair value as the recovery value when available information does not indicate that another value is more relevant or reliable. When management identifies information that supports a recovery value other than the fair value, the determination of a recovery value considers scenarios specific to the issuer and the security, and may be based upon estimates of outcomes of corporate restructurings, political and macro economic factors, stability and financial strength of the issuer, the value of any secondary sources of repayment and the disposition of assets.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

*Equity Securities*

The impairment model for equity securities and other cost and equity method investments was not affected by the adoption of the new accounting standard related to other-than-temporary impairments in the second quarter of 2009. AIG continues to evaluate its available for sale equity securities, equity method and cost method investments for impairment by considering such securities as candidates for other-than-temporary impairment if they meet any of the following criteria:

The security has traded at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);

A discrete credit event has occurred resulting in (i) the issuer defaulting on a material outstanding obligation; (ii) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court supervised reorganization of insolvent enterprises; or (iii) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than par value of their claims; or

AIG has concluded that it may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

The determination that an equity security is other-than-temporarily impaired requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline in which AIG could not reasonably assert that the impairment period would be temporary (severity losses).

*Other Invested Assets*

AIG's investments in funds and investment partnerships are evaluated for impairment consistent with the evaluation of equity securities for impairments as discussed above. Such evaluation considers market conditions, events and volatility that may impact the recoverability of the underlying investments within these funds and investment partnerships and is based on the nature of the underlying investments and specific inherent risks. Such risks may evolve based on the nature of the underlying investments.

AIG's investments in life settlement contracts are monitored for impairment based on the underlying life insurance policies, with cash flows reported monthly. An investment in a life settlement contract is considered impaired if the undiscounted cash flows resulting from the expected proceeds from the insurance policy are less than the carrying amount of the investment plus anticipated continuing costs. If an impairment loss is recognized, the investment is written down to fair value.

AIG's aircraft asset investments and investments in real estate are periodically evaluated for recoverability whenever changes in circumstances indicate the carrying amount of an asset may be impaired. When impairment indicators are present, AIG compares expected investment cash flows to carrying value. When the expected cash flows are less than the carrying value, the investments are written down to fair value with a corresponding charge to earnings.

***Fixed Maturity Securities Impairment Policy*** *Prior to April 1, 2009*

In all periods prior to April 1, 2009, AIG assessed its ability to hold any fixed maturity available for sale security in an unrealized loss position to its recovery at each balance sheet date. The decision to sell any such fixed maturity security classified as available for sale reflected the judgment of AIG's management that the security sold was unlikely to provide, on a relative value basis, as attractive a return in the future as alternative securities entailing comparable risks. With respect to distressed securities, the sale decision reflected management's judgment that the risk-adjusted ultimate recovery was less than the value achievable on sale.



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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)

In those periods, AIG evaluated its fixed maturity securities for other-than-temporary impairments with respect to valuation as well as credit.

After a fixed maturity security had been identified as other-than-temporarily impaired, the amount of such impairment was determined as the difference between fair value and amortized cost and the entire amount was recorded as a charge to earnings.

**7. Variable Interest Entities**

The accounting standards related to the consolidation of variable interest entities (VIEs) provide guidance for determining when to consolidate certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity that is at risk to allow the entity to finance its activities without additional subordinated financial support. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but rather is based on other criteria.

While AIG enters into various arrangements with VIEs in the normal course of business, AIG's involvement with VIEs is primarily as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs via its insurance companies. In all instances, AIG determines whether it is the primary beneficiary or a variable interest holder based on a qualitative assessment of the VIE. This includes a review of the VIE's capital structure, contractual relationships and terms, nature of the VIE's operations and purpose, nature of the VIE's interests issued, and AIG's involvements with the entity. AIG also evaluates the design of the VIE and the related risks the entity was designed to expose the variable interest holders to in evaluating consolidation.

For VIEs with attributes consistent with that of an investment company or a money market fund, the primary beneficiary is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

For all other variable interest entities, the primary beneficiary is the entity that has both (1) the power to direct the activities of the VIE that most significantly affect the entity's economic performance and (2) the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. While also considering these factors, the consolidation conclusion depends on the breadth of AIG's decision-making ability and its ability to influence activities that significantly affect the economic performance of the VIE.

**Exposure to Loss**

AIG's total off-balance sheet exposure associated with VIEs, primarily consisting of financial guarantees and commitments to real estate and investment funds, was \$1.0 billion and \$2.2 billion at March 31, 2010 and December 31, 2009, respectively.

**The following table presents AIG's total assets, total liabilities and off-balance sheet exposure associated with its variable interests in consolidated VIEs:**

	VIE Assets*		VIE Liabilities		Off-Balance Sheet Exposure	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
(in billions)						
Real estate and investment funds	\$ 7.5	\$ 4.6	\$ 3.4	\$ 2.9	\$ 0.2	\$ 0.6
Commercial paper conduit	2.3	3.6	1.4	3.0	-	-
CDOs	-	0.2	-	0.1	-	-
Affordable housing partnerships	2.7	2.5	0.3	-	-	-
Other	7.6	3.4	4.7	2.1	-	-
VIEs of held-for-sale entities	8.7	-	2.5	-	-	-

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Total	\$	28.8	\$	14.3	\$	12.3	\$	8.1	\$	0.2	\$	0.6
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*Each of the VIE's assets can be used only to settle specific obligations of that VIE.*

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American International Group, Inc., and Subsidiaries

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** *(unaudited)*

AIG calculates its maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where AIG has also provided credit protection to the VIE with the VIE as the referenced obligation, and (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by AIG generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG has provided a guarantee to the VIE's interest holders.

The following table presents total assets of unconsolidated VIEs in which AIG holds a variable interest, as well as AIG's maximum exposure to loss associated with these VIEs:

<i>(in billions)</i>	Total VIE Assets	Maximum Exposure to Loss			Total
		On-Balance Sheet Purchased and Retained Interests	Other	Off-Balance Sheet Commitments and Guarantees	
<b>March 31, 2010</b>					
Real estate and investment funds	\$ 14.9	\$ 2.2	\$ 0.2	\$ 0.6	\$ 3.0
Affordable housing partnerships	1.3	-	1.3	-	1.3
Maiden Lane Interests	39.9	6.2	-	-	6.2
Other	0.9	0.2	-	-	0.2
VIEs of held-for-sale entities	11.5	2.6	0.6	0.2	3.4
<b>Total</b>	<b>\$ 68.5</b>	<b>\$ 11.2</b>	<b>\$ 2.1</b>	<b>\$ 0.8</b>	<b>\$ 14.1</b>
<b>December 31, 2009</b>					
Real estate and investment funds	\$ 23.3	\$ 3.2	\$ 0.4	\$ 1.6	\$ 5.2
Affordable housing partnerships	1.3	-	1.3	-	1.3
Maiden Lane Interests	38.7	5.3	-	-	5.3
Other	7.6	1.2	0.5	-	1.7
<b>Total</b>	<b>\$ 70.9</b>	<b>\$ 9.7</b>	<b>\$ 2.2</b>	<b>\$ 1.6</b>	<b>\$ 13.5</b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (*unaudited*)**Balance Sheet Classification**

**AIG's interest in the assets and liabilities of consolidated and unconsolidated VIEs were classified on the Consolidated Balance Sheet as follows:**

<i>(in billions)</i>	Consolidated VIEs		Unconsolidated VIEs	
	March 31, 2010	December 31, 2009	March 31, 2010	December 31, 2009
<b>Assets:</b>				
Available for sale securities	\$ 0.2	\$ 0.9	\$ 0.2	\$ 0.3
Trading securities	3.6	3.9	6.2	6.4
Other invested assets	7.0	3.6	4.4	3.6
Other asset accounts	7.5	5.9	-	1.6
Assets of businesses held for sale	10.5	-	2.5	-
<b>Total</b>	<b>\$ 28.8</b>	<b>\$ 14.3</b>	<b>\$ 13.3</b>	<b>\$ 11.9</b>
<b>Liabilities:</b>				
FRBNY commercial paper funding facility	\$ 2.3	\$ 2.7	\$ -	\$ -
Other long-term debt	5.7	4.6	-	-
Other liability accounts	1.3	0.8	-	-
Liabilities of businesses held for sale	3.0	-	-	-
<b>Total</b>	<b>\$ 12.3</b>	<b>\$ 8.1</b>	<b>\$ -</b>	<b>\$ -</b>

See Note 1 Recent Accounting Standards herein for effect of consolidation under the amended accounting standard for the consolidation of variable interest entities.

***RMBS, CMBS, Other ABS and CDOs***

AIG, through its insurance company subsidiaries, is a passive investor in RMBS, CMBS, CDOs and other ABS primarily issued by domestic special-purpose entities. AIG did not sponsor or transfer assets to, or act as the servicer to these asset-backed structures, and was not involved in the design of these entities.

AIG, via AIGFP, also invests in CDOs and similar structures, which can be cash-based or synthetic and are managed by third parties. AIGFP's role is generally limited to that of a passive investor. It does not manage such structures.

AIG's maximum exposure in these types of structures is limited to its investment in securities issued by these entities. Based on the nature of AIG's investments and its passive involvement in these types of structures, AIG has determined that it is not the primary beneficiary of these entities. The fair values of AIG's investments in these structures are reported in Notes 5 and 6 herein.

See Notes 5, 6 and 10 to the Consolidated Financial Statements in the 2009 Annual Report on Form 10-K for additional information on VIEs and asset-backed securities.

**8. Derivatives and Hedge Accounting**



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AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. AIGFP has also transacted in derivatives as a dealer.

Derivatives are financial arrangements among two or more parties with returns linked to or "derived" from some underlying equity, debt, commodity or other asset, liability, or foreign exchange rate or other index or the occurrence of a specified payment event. Derivative payments may be based on interest rates, exchange rates, prices of certain securities, commodities, or financial or commodity indices or other variables. Derivatives, with the exception of bifurcated embedded derivatives, are reflected at fair value on the Consolidated Balance Sheet in

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Unrealized gain on swaps, options and forward transactions, at fair value and Unrealized loss on swaps, options and forward contracts, at fair value. Bifurcated embedded derivatives are recorded with the host contract on the Consolidated Balance Sheet.

The following table presents the notional amounts and fair values of AIG's derivative instruments:

(in millions)	March 31, 2010				December 31, 2009			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>	Notional Amount <sup>(a)</sup>	Fair Value <sup>(b)</sup>
<b>Derivatives designated as hedging instruments:</b>								
Interest rate contracts <sup>(c)</sup>	\$ 5,743	\$ 752	\$ 1,578	\$ 125	\$ 10,612	\$ 2,129	\$ 3,884	\$ 375
<b>Derivatives not designated as hedging instruments:</b>								
Interest rate contracts <sup>(c)</sup>	291,191	25,763	266,816	21,582	345,614	27,451	300,847	23,718
Foreign exchange contracts	6,492	425	10,607	705	16,662	720	9,719	939
Equity contracts	7,577	828	5,851	781	8,175	1,184	7,713	1,064
Commodity contracts	292	66	110	53	759	883	381	373
Credit contracts	2,277	559	142,890	5,507	3,706	1,210	190,275	5,815
Other contracts	28,633	638	15,355	1,062	34,605	928	23,310	1,101
<b>Total derivatives not designated as hedging instruments</b>	<b>336,462</b>	<b>28,279</b>	<b>441,629</b>	<b>29,690</b>	<b>409,521</b>	<b>32,376</b>	<b>532,245</b>	<b>33,010</b>
<b>Total derivatives</b>	<b>\$ 342,205</b>	<b>\$ 29,031</b>	<b>\$ 443,207</b>	<b>\$ 29,815</b>	<b>\$ 420,133</b>	<b>\$ 34,505</b>	<b>\$ 536,129</b>	<b>\$ 33,385</b>

(a) Notional amount represents a standard of measurement of the volume of derivatives business of AIG. Notional amount is generally not a quantification of market risk or credit risk and is not recorded on the Consolidated Balance Sheet. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps and certain credit contracts.

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

(c) Includes cross currency swaps.

The following table presents the fair values of derivative assets and liabilities on the Consolidated Balance Sheet:

(in millions)	March 31, 2010		December 31, 2009	
	Derivative Assets	Derivative Liabilities <sup>(a)</sup>	Derivative Assets <sup>(b)</sup>	Derivative Liabilities <sup>(c)</sup>
AIGFP derivatives	\$ 26,152	\$ 26,713	\$ 31,951	\$ 30,930

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Non-AIGFP derivatives	2,879	3,102	2,554	2,455
<b>Total derivatives, gross</b>	<b>29,031</b>	<b>29,815</b>	<b>34,505</b>	<b>33,385</b>
Counterparty netting <sup>(d)</sup>	(16,816)	(16,816)	(19,054)	(19,054)
<b>Cash collateral<sup>(e)</sup></b>	<b>(4,832)</b>	<b>(6,061)</b>	<b>(6,317)</b>	<b>(8,166)</b>
Total derivatives, net	\$ 7,383	\$ 6,938	\$ 9,134	\$ 6,165

(a) *Included in non-AIGFP derivatives are \$642 million of bifurcated embedded derivatives, of which \$641 million and \$1 million, respectively, are recorded in Policyholder contract deposits and Other long-term debt.*

(b) *Included in non-AIGFP derivatives are \$4 million of bifurcated embedded derivatives, of which \$3 million and \$1 million, respectively, are recorded in Bonds available for sale, at fair value, and Policyholder contract deposits.*

(c) *Included in non-AIGFP derivatives are \$762 million of bifurcated embedded derivatives, of which \$760 million and \$2 million, respectively, are recorded in Policyholder contract deposits and Common and preferred stock.*

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

(e) *Represents cash collateral posted and received.*

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** (unaudited)**Hedge Accounting**

AIG designated certain derivatives entered into by AIGFP with third parties as either fair value or cash flow hedges of certain debt issued by AIG Parent (including the Matched Investment Program (MIP)), ILFC and AGF. The fair value hedges included (i) interest rate swaps that were designated as hedges of the change in the fair value of fixed rate debt attributable to changes in the benchmark interest rate and (ii) foreign currency swaps designated as hedges of the change in fair value of foreign currency denominated debt attributable to changes in foreign exchange rates and in certain cases also the benchmark interest rate. With respect to the cash flow hedges, (i) interest rate swaps were designated as hedges of the changes in cash flows on floating rate debt attributable to changes in the benchmark interest rate, and (ii) foreign currency swaps were designated as hedges of changes in cash flows on foreign currency denominated debt attributable to changes in the benchmark interest rate and foreign exchange rates.

AIG assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Regression analysis is employed to assess the effectiveness of these hedges both on a prospective and retrospective basis. AIG does not utilize the shortcut method to assess hedge effectiveness. For net investment hedges, the matched terms method is utilized to assess hedge effectiveness.

AIG uses debt instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with AIG's non-U.S. dollar functional currency foreign subsidiaries. AIG assesses the hedge effectiveness and measures the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. AIG records the change in the carrying amount of these investments in the foreign currency translation adjustment within Accumulated other comprehensive loss. Simultaneously, the effective portion of the hedge of this exposure is also recorded in foreign currency translation adjustment and the ineffective portion, if any, is recorded in earnings. If (1) the notional amount of the hedging debt instrument matches the designated portion of the net investment and (2) the hedging debt instrument is denominated in the same currency as the functional currency of the hedged net investment, no ineffectiveness is recorded in earnings. For the three-month periods ended March 31, 2010 and 2009, AIG recognized gains of \$48 million and \$9 million, respectively, included in Foreign currency translation adjustment in Accumulated other comprehensive loss related to the net investment hedge relationships.

**The following table presents the effect of AIG's derivative instruments in fair value hedging relationships on the Consolidated Statement of Income (Loss):**

**Three Months Ended March 31,**  
(in millions)

	2010	2009
<b>Interest rate contracts<sup>(a)(b)</sup>:</b>		
Gain (Loss) Recognized in Earnings on Derivative	\$ (16)	\$ (536)
Gain (Loss) Recognized in Earnings on Hedged Item <sup>(c)</sup>	44	661
Gain (Loss) Recognized in Earnings for Ineffective Portion and Amount Excluded from Effectiveness Testing	9	125

(a) *Gains and losses recognized in earnings on derivatives for the effective portion and hedged items are recorded in Other income. Gains and losses recognized in earnings on derivatives for the ineffective portion and amounts excluded from effectiveness testing are recorded in Net realized capital losses and Other income, respectively.*

(b) *Includes \$4 million and \$120 million, respectively, for the three-month periods ended March 31, 2010 and 2009 related to the ineffective portion and \$5 million, for both the three-month periods ended March 31, 2010 and 2009 for amounts excluded from effectiveness testing.*

(c) *The three months ended March 31, 2010 includes \$19 million representing the amortization of debt basis adjustment following the discontinuation of hedge accounting on certain positions.*



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The following table presents the effect of AIG's derivative instruments in cash flow hedging relationships on the Consolidated Statement of Income (Loss):

**Three Months Ended March 31,**

(in millions)

	2010	2009
Interest rate contracts <sup>(a)</sup> :		
Gain (Loss) Recognized in OCI on Derivatives and Hedge Items	\$ 45	\$ 53
Gain (Loss) Reclassified from Accumulated OCI into Earnings <sup>(b)</sup>	21	27
Gain (Loss) Recognized in Earnings on Derivatives for Ineffective Portion	(7)	(1)

(a) Gains and losses reclassified from Accumulated other comprehensive loss are recorded in Other income. Gains or losses recognized in earnings on derivatives for the ineffective portion are recorded in Net realized capital losses.

(b) The effective portion of the change in fair value of a derivative qualifying as a cash flow hedge is recorded in Accumulated other comprehensive loss until earnings are affected by the variability of cash flows in the hedged item. At March 31, 2010, \$106 million of the deferred net loss in Accumulated other comprehensive loss is expected to be recognized in earnings during the next 12 months.

**Derivatives Not Designated as Hedging Instruments**

The following table presents the effect of AIG's derivative instruments not designated as hedging instruments on the Consolidated Statement of Income (Loss):

Three Months Ended March 31, (in millions)	Gains (Losses) Recognized in Earnings <sup>(a)(b)</sup>	
	2010	2009
Interest rate contracts <sup>(c)</sup>	\$ (1,036)	\$ 1,884
Foreign exchange contracts	257	(98)
Equity contracts	126	147
Commodity contracts	(6)	145
Credit contracts	144	(264)
Other contracts	129	(13)
<b>Total</b>	<b>\$ (386)</b>	<b>\$ 1,801</b>

(a) Represents losses of \$534 million and gains of \$946 million, respectively, for the three-month periods ended March 31, 2010 and 2009, recorded in Net realized capital gains; gains of \$119 million and losses of \$452 million, respectively, for the three-month periods ended March 31, 2010 and 2009, recorded in Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio; and gains of \$29 million and \$1,307 million, respectively, for the three-month periods ended March 31, 2010 and 2009, recorded in Other income.

(b) Certain cross-currency swaps previously reported in Foreign exchange contracts were reclassified to Interest rate contracts.

(c)

*Includes cross currency swaps.*

**AIGFP Derivatives**

AIGFP enters into derivative transactions to mitigate risk in its exposures (interest rates, currencies, commodities, credit and equities) arising from its transactions. In most cases, AIGFP did not hedge its exposures related to the credit default swaps it had written. As a dealer, AIGFP structured and entered into derivative transactions to meet the needs of counterparties who may be seeking to hedge certain aspects of such counterparties' operations or obtain a desired financial exposure.

AIGFP's derivative transactions involving interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying notional amounts. AIGFP typically became a principal in the exchange of interest payments between the parties and, therefore, is exposed to counterparty credit risk and may be exposed to loss, if counterparties default. Currency, commodity, and equity swaps are similar to interest rate swaps, but involve the exchange of specific currencies or cash flows based on the

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underlying commodity, equity securities or indices. Also, they may involve the exchange of notional amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

AIGFP follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, on a security by security basis within its derivatives portfolio, thereby offsetting a significant portion of the unrealized appreciation and depreciation. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to \$556 million of securities to economically hedge its credit risk.

The timing and the amount of cash flows relating to AIGFP's foreign exchange forwards and exchange traded futures and options contracts are determined by each of the respective contractual agreements.

Futures and forward contracts are contracts that obligate the holder to sell or purchase foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. As a writer of options, AIGFP generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index by entering into offsetting transactions with third-party market participants. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts.

***AIGFP Super Senior Credit Default Swaps***

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

Typically, the credit risk associated with a designated portfolio of loans or debt securities has been tranching into different layers of risk, which are then analyzed and rated by the credit rating agencies. At origination, there is usually an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers ranging generally from a BBB-rated layer to one or more AAA-rated layers. A significant majority of AIGFP transactions that were rated by rating agencies had risk layers or tranches rated AAA at origination and are immediately junior to the threshold level above which AIGFP's payment obligation would generally arise. In transactions that were not rated, AIGFP applied equivalent risk criteria for setting the threshold level for its payment obligations. Therefore, the risk layer assumed by AIGFP with respect to the designated portfolio of loans or debt securities in these transactions is often called the "super senior" risk layer, defined as a layer of credit risk senior to one or more risk layers rated AAA by the credit rating agencies, or if the transaction is not rated, structured to the equivalent thereto.



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

<i>(in millions)</i>	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss) Three Months Ended March 31,	
	March 31, 2010 <sup>(a)</sup>	December 31, 2009 <sup>(a)</sup>	March 31, 2010 <sup>(b)(c)</sup>	December 31, 2009 <sup>(b)(c)</sup>	2010 <sup>(c)</sup>	2009 <sup>(c)</sup>
<b>Regulatory Capital:</b>						
Corporate loans	\$ 41,993	\$ 55,010	\$ -	\$ -	\$ -	\$ -
Prime residential mortgages	65,844	93,276	(170)	(137)	33	-
Other	1,552	1,760	15	21	6	(14)
<b>Total</b>	<b>109,389</b>	<b>150,046</b>	<b>(155)</b>	<b>(116)</b>	<b>39</b>	<b>(14)</b>
<b>Arbitrage:</b>						
Multi-sector CDOs <sup>(d)(e)</sup>	7,574	7,926	4,250	4,418	158	(809)
Corporate debt/CLOs <sup>(d)(f)</sup>	16,367	22,076	308	309	(7)	358
<b>Total</b>	<b>23,941</b>	<b>30,002</b>	<b>4,558</b>	<b>4,727</b>	<b>151</b>	<b>(451)</b>
Mezzanine tranches <sup>(g)</sup>	3,104	3,478	214	143	(71)	13
<b>Total</b>	<b>\$ 136,434</b>	<b>\$ 183,526</b>	<b>\$ 4,617</b>	<b>\$ 4,754</b>	<b>\$ 119</b>	<b>\$ (452)</b>

(a) Net notional amounts presented are net of all structural subordination below the covered tranches.

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

(c) Includes credit valuation adjustment losses of \$113 million and credit valuation adjustment gains of \$106 million in the three-month periods ended March 31, 2010 and 2009, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

(d) During the three-month period ended March 31, 2010, AIGFP terminated super senior CDS transactions with its counterparties with a net notional amount of \$5.4 billion, included in Corporate debt/CLOs. These transactions were terminated at approximately their fair value at the time of the termination. As a result, an \$8 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. During the three-month period ended March 31, 2010, AIGFP also made a payment of \$10 million to its counterparty with respect to a Multi-sector CDO. Upon payment, a \$10 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized.

(e) Includes \$6.1 billion and \$6.3 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2010 and December 31, 2009, respectively.

(f) Includes \$1.4 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at both March 31, 2010 and December 31, 2009.

(g)

*Net of offsetting purchased CDS of \$1.4 billion and \$1.5 billion in net notional amount at March 31, 2010 and December 31, 2009, respectively.*

All outstanding CDS transactions for regulatory capital purposes and the majority of the arbitrage portfolio have cash-settled structures in respect of a basket of reference obligations, where AIGFP's payment obligations, other than for posting collateral, may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets. For the remainder of the CDS transactions in respect of the arbitrage portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

The expected weighted average maturity of AIGFP's super senior credit derivative portfolios as of March 31, 2010 was 1.0 years for the regulatory capital corporate loan portfolio, 2.5 years for the regulatory capital prime

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residential mortgage portfolio, 5.5 years for the regulatory capital other portfolio, 6.0 years for the multi-sector CDO arbitrage portfolio and 5.0 years for the corporate debt/CLO portfolio.

*Regulatory Capital Portfolio*

The regulatory capital portfolio represents derivatives written for financial institutions in Europe, for the purpose of providing regulatory capital relief rather than for arbitrage purposes. In exchange for a periodic fee, the counterparties receive credit protection with respect to a portfolio of diversified loans they own, thus reducing their minimum capital requirements. These CDS transactions were structured with early termination rights for counterparties allowing them to terminate these transactions at no cost to AIGFP at a certain period of time or upon a regulatory event such as the implementation of Basel II. During the three-month period ended March 31, 2010, \$25.6 billion in net notional amount was terminated or matured at no cost to AIGFP. Through April 30, 2010, AIGFP had also received a formal termination notice for an additional \$11.6 billion in net notional amount with an effective termination date in 2010.

The regulatory capital relief CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with a regulatory capital relief transaction only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point.

All of the regulatory capital transactions directly or indirectly reference tranching pools of large numbers of whole loans that were originated by the financial institution (or its affiliates) receiving the credit protection, rather than structured securities containing loans originated by other third parties. In the vast majority of transactions, the loans are intended to be retained by the originating financial institution and in all cases the originating financial institution is the purchaser of the CDS, either directly or through an intermediary.

The super senior tranches of these CDS transactions continue to be supported by high levels of subordination, which, in most instances, have increased since origination. The weighted average subordination supporting the prime residential mortgage and corporate loan referenced portfolios at March 31, 2010 was 10.74 percent and 27.19 percent, respectively. The highest level of realized losses to date in any single residential mortgage and corporate loan pool was 2.49 percent and 0.52 percent, respectively. The corporate loan transactions are each comprised of several hundred secured and unsecured loans diversified by industry and, in some instances, by country, and have per-issuer concentration limits. Both types of transactions generally allow some substitution and replenishment of loans, subject to defined constraints, as older loans mature or are prepaid. These replenishment rights generally expire within the first few years of the trade, after which the proceeds of any prepaid or maturing loans are applied first to the super senior tranche (sequentially), thereby increasing the relative level of subordination supporting the balance of AIGFP's super senior CDS exposure.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief. AIGFP continues to reassess the expected maturity of this portfolio. As of March 31, 2010, AIGFP estimated that the weighted average expected maturity of the portfolio was 1.89 years. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of Basel I that existed through the end of 2007 and which is in the process of being replaced by Basel II. It was expected that financial institution counterparties would have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they would have received little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances. However, in 2009, the Basel Committee announced that it had agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive

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favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

*Arbitrage Portfolio*

The arbitrage portfolio includes arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

The outstanding multi-sector CDO portfolio at March 31, 2010 was written on CDO transactions (including synthetic CDOs) that generally held a concentration of RMBS, CMBS and inner CDO securities. At March 31, 2010, approximately \$3.8 billion net notional amount (fair value liability of \$2.4 billion) of this portfolio was written on super senior multi-sector CDOs that contain some level of sub-prime RMBS collateral, with a concentration in the 2005 and earlier vintages of sub-prime RMBS. AIGFP's portfolio also included both high grade and mezzanine CDOs.

The majority of multi-sector CDO CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with such transactions only if realized credit losses in respect of the underlying portfolio exceed AIGFP's attachment point. In the remainder of the portfolio, AIGFP's payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

Included in the multi-sector CDO portfolio are 2a-7 Puts. Holders of securities are required, in certain circumstances, to tender their securities to the issuer at par. If an issuer's remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par so long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred. At both March 31, 2010 and December 31, 2009, there was \$1.6 billion net notional amount of 2a-7 Puts issued by AIGFP outstanding. AIGFP is not a party to any commitments to issue any additional 2a-7 Puts.

ML III has agreed not to exercise its put option on multi-sector CDOs or simultaneously to exercise its put option with a corresponding par purchase of the multi-sector CDOs with respect to the \$853 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may be exercised on or prior to December 31, 2010 and \$530 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may be exercised on or prior to April 30, 2011. In addition, there are \$182 million notional amount of multi-sector CDOs held by ML III with 2a-7 Puts that may not be exercised on or prior to December 31, 2010, for which ML III has only agreed not to exercise its put option on multi-sector CDOs or simultaneously to exercise its put option with a corresponding par purchase of the multi-sector CDOs through December 31, 2010. In exchange, AIGFP has agreed to pay to ML III the consideration that it receives for providing the put protection. Additionally, ML III has agreed that if it sells any such multi-sector CDO with a 2a-7 Put to a third-party purchaser, that such sale will be conditioned upon, among other things, such third-party purchaser agreeing that until the legal final maturity date of such multi-sector CDO it will not exercise its put option on such multi-sector CDO or it will make a corresponding par purchase of such multi-sector CDO simultaneously with the exercise of its put option. In exchange for such commitment from the third-party purchaser, AIGFP will agree to pay to such third-party purchaser the consideration that it receives for providing the put protection.

ML III has agreed to assist AIGFP in efforts to mitigate or eliminate AIGFP's obligations under such 2a-7 Puts relating to multi-sector CDOs held by ML III prior to the expiration of ML III's obligations with respect to such multi-sector CDOs. There can be no assurances that such efforts will be successful. To the extent that such efforts are not successful with respect to a multi-sector CDO held by ML III with a 2a-7 Put and ML III has not sold such multi-sector CDO to a third-party who has committed not to exercise its put option on such multi-sector CDO or to make a corresponding par purchase of such multi-sector CDO simultaneously with the exercise of its put option then, upon the expiration of ML III's aforementioned obligations with respect to such multi-sector

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CDO, AIGFP will be obligated under the related 2a-7 Put to purchase such multi-sector CDO at par in the circumstances and subject to the limited conditions contained in the applicable agreements.

The corporate arbitrage portfolio consists principally of CDS transactions written on portfolios of senior unsecured corporate obligations that were generally rated investment grade at inception of the CDS. These CDS transactions require cash settlement. Also, included in this portfolio are CDS transactions with a net notional amount of \$1.4 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

Certain of the super senior credit default swaps provide the counterparties with an additional termination right if AIG's rating level falls to BBB or Baa2. At that level, counterparties to the CDS transactions with a net notional amount of \$10.2 billion at March 31, 2010 have the right to terminate the transactions early. If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the transactions, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the transactions.

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

*Collateral*

Most of AIGFP's super senior credit default swaps are subject to collateral posting provisions, which typically are governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements (Master Agreements) and related Credit Support Annexes (CSA). These provisions differ among counterparties and asset classes. AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a lesser extent, AIGFP has also received collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate arbitrage.

The amount of future collateral posting requirements is a function of AIG's 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. While a high level of correlation exists between the amount of collateral posted and the valuation of these contracts in respect of the arbitrage portfolio, a similar relationship does not exist with respect to the regulatory capital portfolio given the nature of how the amount of collateral for these transactions is determined. Given the severe market disruption, lack of observable data and the uncertainty of future market price movements, AIGFP is unable to reasonably estimate the amounts of collateral that it may be required to post in the future.

At March 31, 2010 and December 31, 2009, the amount of collateral postings with respect to AIGFP's super senior credit default swap portfolio (prior to offsets for other transactions) was \$4.5 billion and \$4.6 billion, respectively.

*AIGFP Written Single Name Credit Default Swaps*

AIGFP has also entered into credit default swap contracts referencing single-name exposures written on corporate, index, and asset-backed credits, with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy allowing AIGFP to earn the net spread between CDS they wrote and ones they purchased. At March 31, 2010, the net notional amount of these written CDS contracts was \$1.9 billion. AIGFP has hedged these exposures by purchasing offsetting CDS contracts of \$314 million in net notional amount. The net unhedged position of approximately \$1.6 billion represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is

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6.6 years. At March 31, 2010, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was \$264 million.

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

AIGFP wrote these written CDS contracts under Master Agreements. The majority of these Master Agreements include CSA, which provide for collateral postings at various ratings and threshold levels. At March 31, 2010, AIGFP had posted \$318 million of collateral under these contracts.

***Non-AIGFP Derivatives***

AIG and its subsidiaries (other than AIGFP) also use derivatives and other instruments as part of their financial risk management programs. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with investments in fixed income securities, outstanding medium- and long-term notes, and other interest rate sensitive assets and liabilities. In addition, foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures and foreign exchange transactions. The derivatives are effective economic hedges of the exposures they are meant to offset.

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

***Matched Investment Program Written Credit Default Swaps***

The MIP, which is currently in run-off, has entered into CDS contracts as a writer of protection, with the intention of earning spread income on credit exposure in an unfunded form. The portfolio of CDS contracts were single-name exposures and, at inception, were predominantly high grade corporate credits.

The MIP invested in written CDS contracts through an affiliate which then transacts directly with unaffiliated third parties under ISDA agreements. As of March 31, 2010, the notional amount of written CDS contracts was \$3.9 billion with an average credit rating of BBB+. The average maturity of the written CDS contracts is 2.2 years as of March 31, 2010. As of March 31, 2010, the fair value of the derivative liability (which represents the carrying value) of the MIP's written CDS was \$65.1 million.

The majority of the ISDA agreements include CSA provisions, which provide for collateral postings at various ratings and threshold levels. At March 31, 2010, \$26.7 million of collateral was posted for CDS contracts related to the MIP. The notional amount represents the maximum exposure to loss on the written CDS contracts. However, due to the average investment grade rating and expected default recovery rates, actual losses are expected to be less.

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

***Credit Risk-Related Contingent Features***

AIG transacts in derivative transactions directly with unaffiliated third parties under ISDA agreements. Many of the ISDA agreements also include CSA provisions, which provide for collateral postings at various ratings and threshold levels. In addition, AIG attempts to reduce credit risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis.



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The aggregate fair value of AIG's derivative instruments, including those of AIGFP, that contain credit risk-related contingent features that are in a net liability position at March 31, 2010 was approximately \$8.7 billion. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2010, was \$8.7 billion.

It is estimated that as of the close of business on March 31, 2010, based on AIG's outstanding financial derivative transactions, including those of AIGFP at that date, a one-notch downgrade of AIG's long-term senior debt ratings to Baa1 by Moody's Investors Service (Moody's) and BBB+ by Standard & Poor's Financial Services LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in up to approximately \$1.6 billion of corresponding collateral postings and termination payments; a two-notch downgrade to Baa2 by Moody's and BBB by S&P would result in approximately \$1.2 billion in additional collateral postings and termination payments above the one-notch downgrade amount; and a three-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately \$0.4 billion in additional collateral postings and termination payments above the two-notch downgrade amount. Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of March 31, 2010. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. The actual termination payments could significantly differ from management's estimates given market conditions at the time of downgrade and the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise.

**9. Commitments, Contingencies and Guarantees**

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

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

**(a) Litigation and Investigations**

*Litigation Arising from Operations.* AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. In AIG's insurance operations (including United Guaranty Corporation (UGC)), litigation arising from claims settlement activities is generally considered in the establishment of AIG's Liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation.

Various federal, state and foreign regulatory and governmental agencies are reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with, among other matters, AIG's liquidity problems, payments by AIG subsidiaries to non-U.S. persons and industry-wide and other inquiries including matters relating to compensation paid to AIGFP employees and payments made to AIGFP counterparties. These reviews include ongoing investigations by the U.S. Securities and Exchange Commission (SEC) and U.S. Department of Justice (DOJ) with respect to the valuation of AIGFP's multi-sector CDO super senior credit default swap portfolio under fair value accounting rules, and the adequacy of AIG's enterprise risk management processes with respect to AIG's exposure to the U.S. residential mortgage market, and disclosures relating thereto. There is also an investigation by the U.K. Serious Fraud Office and inquiries by the U.K. Financial Services



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Authority with respect to the U.K. operations of AIGFP. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

In connection with certain SEC investigations, AIG understands that some of its employees have received Wells notices and it is possible that additional current and former employees could receive similar notices in the future. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized.

***Litigation Relating to AIG's Subprime Exposure and AIGFP's Employee Retention Plan***

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

On May 19, 2009, lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to three shelf registration statements filed on June 12, 2003, June 12, 2007, and May 12, 2008. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG's stock. The alleged false and misleading statements relate to, among other things, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio as a result of severe credit market disruption and AIG's securities lending program. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and those motions are pending.

***ERISA Actions Southern District of New York.*** Between June 25, 2008, and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. On March 19, 2009, the Court consolidated these eight actions as *In re American International Group, Inc. ERISA Litigation II*, and appointed interim lead plaintiffs' counsel. On June 26, 2009, lead plaintiffs' counsel filed a consolidated amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of the AIG Incentive Savings Plan, American General Agents' and Managers' Thrift Plan, and the CommoLoCo Thrift Plan (the Plans) during the period June 15, 2007 through the present and whose participant accounts included shares of AIG's common stock. In the consolidated amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to Plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the Plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose unrealized market valuation losses on AIGFP's super senior credit default swap portfolio as a result of severe credit market disruption. On September 18, 2009, defendants filed motions to dismiss the consolidated amended complaint, and those motions are pending.

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*Derivative Action Southern District of New York.* On November 20, 2007, two purported shareholder derivative actions were filed in the Southern District of New York naming as defendants directors and officers of AIG and its subsidiaries and asserting claims on behalf of nominal defendant AIG. The actions were consolidated as In re American International Group, Inc. 2007 Derivative Litigation (the Consolidated 2007 Derivative Litigation). The factual allegations involve AIG's exposure to the U.S. residential subprime mortgage market (Subprime Exposure) and are generally the same as those alleged in the Consolidated 2008 Securities Litigation. On August 6, 2008, a third purported shareholder derivative action was filed in the Southern District of New York asserting claims on behalf of AIG based generally on the same allegations as in the Consolidated 2007 Derivative Litigation. On February 11, 2009, the Court approved a stipulation consolidating the derivative action filed on August 6, 2008 with the Consolidated 2007 Derivative Litigation. On June 3, 2009, lead plaintiff filed a consolidated amended complaint naming additional directors and officers of AIG and its subsidiaries as defendants, adding allegations concerning AIGFP employee retention payments, and asserting claims on behalf of nominal defendant AIG for breach of fiduciary duty, waste of corporate assets, unjust enrichment, contribution and violations of Sections 10(b) and 20(a) of the Exchange Act. On August 5 and 26, 2009, AIG and defendants filed motions to dismiss the consolidated complaint. On September 30, 2009, plaintiff in the purported derivative action discussed below filed on April 1, 2009 in the Superior Court of the State of California, Los Angeles County moved to intervene in the Consolidated 2007 Derivative Litigation. On December 23, 2009, the Court denied the motion.

On November 20, 2009, a stipulation was filed with the Court voluntarily dismissing the claims against two of the senior officers of AIG named as defendants, Brian T. Schreiber and Frank G. Wisner, without prejudice. The requested voluntary dismissal was not the product of a settlement between lead plaintiff and Mr. Schreiber and Mr. Wisner. Neither lead plaintiff nor lead plaintiff's counsel sought or received any consideration in return for this voluntary dismissal. By order of the Court on January 21, 2010, notice of this voluntary dismissal without prejudice of Mr. Schreiber and Mr. Wisner was given to AIG's shareholders in AIG's 2009 Annual Report on Form 10-K, and any shareholder objecting to the voluntary dismissal without prejudice of Mr. Schreiber and Mr. Wisner was required to file any objections to the proposed dismissal within 30 days of the filing of the 2009 Annual Report on Form 10-K, *i.e.*, by March 28, 2010. No objections were received. On March 30, 2010, the Court dismissed the action due to plaintiff's failure to make a pre-suit demand on AIG's Board of Directors. On March 31, 2010, judgment was entered. As a result, no order was submitted to the Court regarding the dismissal without prejudice of Mr. Schreiber and Mr. Wisner. On April 29, 2010, plaintiff filed a notice of appeal to the United States Court of Appeals for the Second Circuit, seeking to reverse the Court's decision to dismiss the action.

*Derivative Action Supreme Court of New York, Nassau County.* On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County naming as defendants certain directors and officers of AIG and its subsidiaries concerning AIG's Subprime Exposure. Plaintiff asserts claims on behalf of nominal defendant AIG for breach of fiduciary duty, waste of corporate assets, and unjust enrichment in connection with AIG's public disclosures regarding its Subprime Exposure. On May 19, 2008, defendants filed a motion to dismiss or to stay the proceedings in light of the pending Consolidated 2007 Derivative Litigation. On March 9, 2009, the Court granted defendants' motion to stay the action.

*Derivative Action Supreme Court of New York, New York County.* On March 20, 2009, a purported shareholder derivative complaint was filed in the Supreme Court of New York County naming as defendants certain directors and officers of AIG and recipients of AIGFP retention payments. Plaintiffs assert claims on behalf of nominal defendant AIG concerning AIGFP retention payments. Plaintiff alleges claims for breach of fiduciary duty, waste of corporate assets and rescission and constructive trust.

*Derivative Actions Delaware Court of Chancery.* On September 17, 2008, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery naming as defendants certain directors and officers of AIG and its subsidiaries. Plaintiff asserts claims on behalf of nominal defendant AIG for breach of fiduciary duty,

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waste of corporate assets, and mismanagement in connection with AIG's public disclosures regarding its Subprime Exposure. On December 19, 2008, a motion to stay or dismiss the action in favor of the Consolidated 2007 Derivative Litigation was filed. On July 17, 2009, the Court granted defendants' motion to stay the action.

On January 15, 2009, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery naming as defendants certain directors of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP. Plaintiff asserts claims against Mr. Cassano on behalf of nominal defendant AIGFP and AIG as the sole shareholder of AIGFP concerning AIG's and AIGFP's Subprime Exposure alleging breach of fiduciary duty and unjust enrichment. On July 17, 2009, plaintiff filed an amended complaint that asserts the same claims as the original complaint. On August 5, 2009, the Court entered an order staying the action pending disposition of the motions to dismiss of the Consolidated 2007 Derivative Litigation.

*Derivative Actions Superior Court for the State of California, Los Angeles County.* On April 1, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, asserting claims on behalf of nominal defendant AIG against certain directors and officers of AIG. The complaint asserts claims for waste of corporate assets, breach of fiduciary duty, abuse of control, and unjust enrichment and constructive trust in connection with defendants' approval of bonuses and retention payments. On May 29, 2009, defendants moved to stay or dismiss the action in favor of the Consolidated 2007 Derivative Litigation and to quash service of summons due to lack of personal jurisdiction over certain individual defendants. On August 27, 2009, the Court granted defendants' motion to stay the action.

On November 20, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain former and present directors and officers of AIG and its subsidiaries. Plaintiff asserts claims on behalf of nominal defendant AIG concerning AIG's Subprime Exposure alleging breach of fiduciary duty, waste of corporate assets, and mismanagement. On November 24, 2009, an amended complaint was filed asserting the same claims. On February 4, 2010, the parties filed a stipulation staying the action in favor of the Consolidated 2007 Derivative Litigation. On February 9, 2010, the Court signed a stipulation staying the action pending resolution of the Consolidated 2007 Derivative Litigation.

*Canadian Securities Class Action Ontario Superior Court of Justice.* On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported securities fraud class action against AIG, AIGFP, certain directors and officers of AIG and the former Chief Executive Officer of AIGFP. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against defendants. The proposed statement of claim would assert a class period of November 10, 2006 through September 16, 2008 (later amended to March 16, 2006 through September 16, 2008), and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act. On April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On May 29, 2009, the applicant filed responding affidavits and an amended draft statement of claim. The factual allegations are generally the same as those alleged in the Consolidated 2008 Securities Litigation. On November 20 and 30, and December 4, 2009, defendants filed briefs in support of their motions to dismiss, and those motions are pending.

*Panama Action Tribunal del Circuito Civil, Panama City, Panama.* On February 26, 2009, SICO sought permission to file a complaint in Panamanian Court against AIG. In the complaint, SICO alleges that AIG intentionally concealed from its shareholders, including SICO, its unstable financial situation and risk of losses, which ultimately resulted in losses to the value of SICO's shares of AIG Common Stock. On August 12, 2009, AIG filed a motion to dismiss the complaint and a motion for correction of the complaint. On August 13, 2009, AIG filed a motion with the Panama Supreme Court challenging on constitutional grounds a motion by SICO to amend the complaint. Under the terms of the settlement agreement and memorandum of understanding signed by AIG, on the one hand, and Greenberg, Howard I. Smith, AIG's former Chief Financial Officer, C.V. Starr & Company, Inc. (C.V. Starr) and Starr International Company, Inc. (SICO), on the other hand (the Starr Parties) that was announced on November 25, 2009 (the AIG/Greenberg MOU), SICO agreed to undertake to dismiss this action with prejudice. On February 10, 2010, the parties filed a joint request to dismiss the case. On March 2, 2010, the Court posted its approval of the dismissal of claims and the action was terminated.

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*Litigation Matter Relating to AIGFP.* On September 30, 2009, Brookfield Asset Management, Inc. and Brysons International, Ltd. (together, "Brookfield") filed a complaint against AIG and AIGFP in the Southern District of New York. Brookfield seeks a declaration that a 1990 interest rate swap agreement between Brookfield and AIGFP (guaranteed by AIG) terminated upon the occurrence of certain alleged events that Brookfield contends constituted defaults under the swap agreement's standard "bankruptcy" default provision. Brookfield claims that it is excused from all future payment obligations under the swap agreement on the basis of the purported termination. At March 31, 2010, the estimated present value of expected future cash flows discounted at LIBOR was \$1.3 billion. It is AIG's position that no termination event has occurred and that the swap agreement remains in effect. A determination that AIG triggered a "bankruptcy event of default" under the swap agreement could, depending on the Court's precise holding, affect other AIG or AIGFP agreements that contain the same or similar default provisions. Such a determination could also affect derivative agreements or other contracts between third parties, such as credit default swaps under which AIG is a reference credit, which could affect the trading price of AIG securities. On December 17, 2009 defendants filed a motion to dismiss, and that motion is pending.

**2006 Regulatory Settlements and Related Matters**

*2006 Regulatory Settlements.* In February 2006, AIG reached a resolution of claims and matters under investigation with the DOJ, the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). AIG recorded an after-tax charge of \$1.15 billion relating to these settlements in the fourth quarter of 2005. The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers' compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately \$1.64 billion, \$225 million of which represented fines and penalties. Amounts held in escrow totaling approximately \$338 million, including interest thereon, are included in Other assets at March 31, 2010. At that date, all of the funds were escrowed for settlement of claims resulting from the underpayment by AIG of its residual market assessments for workers' compensation.

In addition to the escrowed funds, \$800 million was deposited into a fund under the supervision of the SEC as part of the settlements to be available to resolve claims asserted against AIG by investors, including the securities class action shareholder lawsuits described below. On April 14, 2008, the Court overseeing the Fair Fund approved a plan for distribution of monies in the fund, and on May 18, 2009 ordered that the Distribution Agent was authorized to commence distribution of Fair Fund monies to approved eligible claimants.

Also, as part of the settlements, AIG agreed to retain, for a period of three years, an independent consultant to conduct a review that included, among other things, the adequacy of AIG's internal control over financial reporting, the policies, procedures and effectiveness of AIG's regulatory, compliance and legal functions and the remediation plan that AIG has implemented as a result of its own internal review.

*Other Regulatory Settlements.* AIG's 2006 regulatory settlements with the SEC, DOJ, NYAG and DOI did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into agreements effective January 29, 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry-wide investigations into producer compensation and insurance placement practices. The settlements call for total payments of \$12.5 million to be allocated among the ten jurisdictions representing restitution to state agencies and reimbursement of the costs of the investigation. During

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the term of the settlement agreements, which run through early 2018, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry-wide investigations. The agreement with the Texas Attorney General also settles allegations of anticompetitive conduct relating to AIG's relationship with Allied World Assurance Company and includes an additional settlement payment of \$500,000 related thereto.

AIG entered into an agreement effective March 13, 2008 with the Pennsylvania Insurance Department relating to the Department's investigation into the affairs of AIG and certain of its Pennsylvania-domiciled insurance company subsidiaries. The settlement calls for total payments of approximately \$13.5 million, of which approximately \$4.4 million was paid under previous settlement agreements. During the term of the settlement agreement, which runs for a period of three years from May 1, 2008, AIG will provide annual reinsurance reports, as well as maintain certain producer compensation disclosure and ongoing compliance initiatives.

*NAIC Examination of Workers' Compensation Premium Reporting.* During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of the states of Indiana, Minnesota and Rhode Island, began an investigation into AIG's reporting of workers' compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers' compensation insurance be commenced under the direction of the NAIC's Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania, and Rhode Island. All other states (and the District of Columbia) have agreed to participate in the multi-state examination. To date, the examination has focused on legacy issues related to AIG's writing and reporting of workers' compensation insurance prior to 1996. AIG has also been advised that the examination will focus on current compliance with legal requirements applicable to such business. AIG has not been advised that any determinations have been made with respect to these issues, and cannot predict either the outcome of the investigation or provide any assurance regarding regulatory action that may result from the investigation.

*Securities Action Southern District of New York.* Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as *In re American International Group, Inc. Securities Litigation*. Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the class action is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG's publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation (General Re), and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used "income smoothing" products and other techniques to inflate its earnings; (3) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that AIG's former Chief Executive Officer, Maurice R. Greenberg, manipulated AIG's stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 20(a) of the Exchange Act, and Section 20A of the Exchange Act. In April 2006, the Court denied the defendants' motions to dismiss the second amended class action complaint and the Florida complaint. In December 2006, a third amended class action complaint was filed, which does not differ substantially from the prior complaint. Fact discovery is currently ongoing. On February 20, 2008, the lead plaintiff filed a motion for class certification. In October 2009, the lead plaintiff advised the Court that it had entered into a settlement agreement with Maurice R. Greenberg, Howard I. Smith, Christian M. Milton, Michael J. Castelli, SICO and Starr. At the lead plaintiff's request, the Court has entered an order dismissing all of the lead plaintiff's claims against these defendants "without prejudice" to any party. The lead plaintiff has also voluntarily dismissed

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Frank Hoenemeyer, L. Michael Murphy, and Richmond Insurance Company, Ltd. On February 22, 2010, the Court issued an opinion granting, in part, lead plaintiffs' motion for class certification. The Court rejected lead plaintiffs' request to include in the class purchasers of certain AIG bonds on the grounds that (a) lead plaintiffs lack standing to pursue claims pursuant to the Securities Act with respect to such bonds, and (b) lead plaintiffs had failed to establish that common issues predominate over individual issues with regard to claims under the Exchange Act relating to AIG bonds. On that basis the Court declined to certify a class with respect to Counts I through IV of the Complaint and dismissed those claims for lack of standing. With respect the remaining claims under the Exchange Act on behalf of putative class members who had purchased AIG Common Stock, the Court declined to certify a class as to certain defendants other than AIG and rejected lead plaintiffs' claims that class members could establish injury based on disclosures on two of the six dates lead plaintiffs had proposed, but certified a class consisting of all shareholders who purchased or otherwise acquired AIG Common Stock during the class period of October 28, 1999 to April 1, 2005, and who possessed that stock over one or more of the dates October 14, 2004, October 15, 2004, March 17, 2005 or April 1, 2005, as well as persons who held AIG Common Stock in two companies at the time they were acquired by AIG in exchange for AIG Common Stock, and were allegedly damaged thereby. In light of the class certification decision, on March 5, 2010, the Court denied as moot Gen Re's and lead plaintiffs' motion to certify their proposed settlement, and on March 18, 2010, PwC withdrew its motion to approve its proposed settlement with lead plaintiffs. Lead plaintiffs and AIG have each filed petitions pursuant to Fed R. Civ. P. 23(f) requesting permission to appeal the class certification decision. AIG, Gen Re, Richard Napier and Ronald Ferguson have each filed opposition briefs to lead plaintiff's Rule 23(f) petition. Lead plaintiff also filed an opposition brief to AIG's Rule 23(f) petition. The Rule 23(f) petitions remain pending at this time.

*Derivative Action Southern District of New York.* Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action (the New York 2004/2005 Derivative Litigation). The complaint in this action contains nearly the same types of allegations made in the securities fraud action described above. The named defendants include current and former officers and directors of AIG, as well as Marsh & McLennan Companies, Inc. (Marsh), SICO, Starr, ACE Limited and subsidiaries (Ace), General Re, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from AIG's former Chief Executive Officer, Maurice R. Greenberg, and former Chief Financial Officer, Howard I. Smith, of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG's Board of Directors has appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The Court has entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The Court also has entered an order that termination of certain named defendants from the Delaware action applies to this action without further order of the Court. On February 26, 2009, the Court dismissed those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action had not pursued claims. It is AIG's position that the terms of the AIG/Greenberg MOU do not require dismissal of the derivative claims against Greenberg, Smith and SICO in the New York 2004/2005 Derivative Litigation. The Starr Parties have taken the opposite position.

*Derivative Actions Delaware Chancery Court.* From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as In re American International Group, Inc. Consolidated Derivative Litigation (the Delaware 2004/2005 Derivative Litigation). The amended consolidated complaint named 43 defendants (not including nominal defendant AIG) who, as in the New York 2004/2005 Derivative Litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and directors. The factual allegations, legal claims and relief sought in this action are similar to those alleged in the

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New York 2004/2005 Derivative Litigation, except that the claims are only under state law. In early 2007, the Court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the Special Committee, AIG filed an amended complaint against former directors and officers Maurice R. Greenberg and Howard I. Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the Special Committee filed a motion to terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG's complaint and brought third-party complaints against certain current and former AIG directors and officers, PwC and INS Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. On February 12, 2008, the Court granted AIG's motion to stay discovery pending the resolution of claims against AIG in the New York consolidated securities action. On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers Maurice Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On June 13, 2008, certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. On February 10, 2009, the Court denied the motions to dismiss filed by Maurice Greenberg, Edward Matthews, and Thomas Tizzio; granted the motion to dismiss filed by PwC without prejudice; and granted the motion to dismiss filed by certain former employees of AIG without prejudice for lack of personal jurisdiction. On March 6, 2009, the Court granted an Order of Dismissal, Notice and Order of Voluntary Dismissal and Stipulation and Order of Dismissal to dismiss those individual defendants who were similarly situated to the individuals dismissed by the Court for lack of personal jurisdiction. On March 12, 2009, Defendant Greenberg filed his verified answer to AIG's complaint; cross-claims against Marsh, ACE, General Re, and Thomas Tizzio; and a third-party complaint against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. Defendant Smith has also filed his answer to AIG's complaint, which was amended on July 9, 2009 to add cross-claims against Thomas Tizzio and third-party claims against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. On June 17, 2009, the Court issued an opinion granting the motions to dismiss filed by General Re, Marsh, ACE, and Susan Rivera. On July 13, 2009 and July 17, 2009, the Court entered final judgments in favor of PwC, General Re, Marsh, ACE, and Susan Rivera. Shortly thereafter, the shareholder plaintiffs filed separate appeals: one addressing the dismissal of PwC, and the other addressing the dismissals of ACE, General Re, and Marsh. Their opening briefs were filed on September 24, 2009. By November 12, 2009, those appeals were fully briefed. Under the AIG/Greenberg MOU, AIG agreed to undertake to dismiss its direct claims against Greenberg and Smith in the Delaware 2004/2005 Derivative Litigation with prejudice. On November 27, 2009, counsel for the shareholder plaintiffs filed a motion for a temporary restraining order enjoining AIG from proceeding with its November 25, 2009 settlement with Greenberg. AIG opposed the motion on the ground, among other things, that the AIG/Greenberg MOU did not extinguish the shareholder plaintiffs' derivative claims. On November 30, 2009, counsel for the shareholder plaintiffs wrote to the Court and stated that "there appears to be nothing to enjoin" because the AIG/Greenberg MOU was the final, operative settlement agreement, and noted that the shareholder plaintiffs may request declaratory relief regarding the impact of the AIG/Greenberg MOU at a subsequent time. On February 5, 2010, AIG, Greenberg and Smith submitted a stipulation to the Court dismissing AIG's direct claims against Greenberg and Smith. The Starr Parties have taken the position that the AIG/Greenberg MOU also releases certain of the derivative claims being pursued by the shareholder plaintiffs. AIG has taken the opposite position.

AIG was also named as a defendant in a derivative action in the Delaware Chancery Court brought by shareholders of Marsh. On July 10, 2008, shareholder plaintiffs filed a second consolidated amended complaint, which contains claims against AIG for aiding and abetting a breach of fiduciary duty and contribution and indemnification in connection with alleged bid-rigging and steering practices in the commercial insurance market that are the subject of the Policyholder Antitrust and Racketeering Influenced and Corrupt Organizations Act

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(RICO) Actions described below. On November 10, 2008, AIG and certain defendants filed motions to dismiss the shareholder plaintiffs' portions of the complaint. On June 17, 2009, the Court dismissed the claims against AIG, Maurice R. Greenberg, and Zachary Carter with prejudice and denied the motions to dismiss filed by the remaining defendants. Final judgment was entered on June 19, 2009. The Court granted a motion by AIG for entry of final judgment under Rule 54(b), and entered final judgment dismissing AIG and Maurice R. Greenberg on September 2, 2009. The shareholder plaintiffs filed their notice of appeal on October 1, 2009. AIG moved to consolidate the appeal with the appeal of the dismissal of ACE, General Re, and Marsh in the Delaware 2004/2005 Derivative Litigation. The shareholders of Marsh moved to stay this appeal pending the decision in the appeal of the dismissal of ACE, General Re, and Marsh in the Delaware 2004/2005 Derivative Litigation. On November 10, 2009, the Delaware Supreme Court granted AIG's motion to consolidate the appeals for the purposes of oral argument and denied the Marsh shareholders' motion to stay. The shareholders of Marsh filed their opening brief on November 16, 2009. The appeal has been fully briefed, and oral argument was held before a three-judge panel of the Delaware Supreme Court on February 17, 2010. On February 22, 2010, the Court issued an order notifying the parties that the appeal would be heard by the Court *en banc*. The argument before the *en banc* court has not been scheduled.

*Derivative Action - Supreme Court of New York.* On February 11, 2009, shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation filed a derivative complaint in the Supreme Court of New York against the individual defendants who moved to dismiss the complaint in the Delaware 2004/2005 Derivative Litigation on personal jurisdiction grounds. The defendants include current and former officers and employees of AIG, Marsh, and General Re; AIG is named as a nominal defendant. The complaint in this action contains similar allegations to those made in the Delaware 2004/2005 Derivative Litigation described above. Discovery in this action is stayed pending the resolution of the claims against AIG in the securities actions described above under Securities Actions - Southern District of New York. Defendants filed motions to dismiss the complaint on May 1, 2009 and have completed their briefing. The shareholder plaintiffs have reached an agreement staying discovery as well as any motions to dismiss with the General Re and Marsh defendants pending final adjudication of any claims against those parties in the Delaware 2004/2005 Derivative Litigation. Oral argument on the other motions to dismiss has been adjourned until June 24, 2010.

*Policyholder Antitrust and RICO Actions.* Commencing in 2004, policyholders brought multiple federal antitrust and RICO class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in a broad conspiracy to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal Courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that Court in two parallel actions, *In re Insurance Brokerage Antitrust Litigation* (the Commercial Complaint) and *In re Employee Benefits Insurance Brokerage Antitrust Litigation* (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-district Litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs' behalf with a number of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges, among other things, that defendants engaged in a widespread conspiracy to allocate customers through bid-rigging and steering practices. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys' fees as a result of the alleged RICO and Sherman Antitrust Act violations.



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The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations made in the Commercial Complaint.

The Court, in connection with the Commercial Complaint, granted (without leave to amend) defendants' motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The Court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. On January 14, 2008, the Court granted defendants' motion for summary judgment on the ERISA claims in the Employee Benefits Complaint and subsequently dismissed the remaining state law claims without prejudice, thereby dismissing the Employee Benefits Complaint in its entirety. On February 12, 2008, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the Employee Benefits Complaint. Plaintiffs previously appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit on October 10, 2007. Both appeals are fully briefed and oral argument in both appeals was held on April 21, 2009.

A number of complaints making allegations similar to those in the Multi-district Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-district Litigation. These additional consolidated actions are still pending in the District of New Jersey, but are currently stayed. The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the Multi-district Litigation proceeding. These efforts have generally been successful, although discovery recently commenced in one case pending in Kansas state court. Discovery has been stayed in another case pending in Texas state court. In that case, the plaintiff filed an amended petition on July 13, 2009, and defendants filed special exceptions in connection with plaintiff's amended petition on August 14, 2009. A hearing on the special exceptions was held on November 11, 2009. AIG has settled several of the various federal and state actions alleging claims similar to those in the Multi-district Litigation, including state court actions pending in Florida and in New Jersey in which discovery had been allowed to proceed.

*Ohio Attorney General Action Ohio Court of Common Pleas.* On August 24, 2007, the Ohio Attorney General filed a complaint in the Ohio Court of Common Pleas against AIG and a number of its subsidiaries, as well as several other broker and insurer defendants, asserting violation of Ohio's antitrust laws. The complaint, which is similar to the Commercial Complaint, alleges that AIG and the other broker and insurer defendants conspired to allocate customers, divide markets, and restrain competition in commercial lines of casualty insurance sold through the broker defendant. The complaint seeks treble damages on behalf of Ohio public purchasers of commercial casualty insurance, disgorgement on behalf of both public and private purchasers of commercial casualty insurance, and a \$500-per-day penalty for each day of conspiratorial conduct. On April 7, 2010, it was announced that AIG and the Ohio Attorney General agreed to settle the Ohio Attorney General's claims. Under the settlement agreement, AIG agreed to make a payment of \$9 million and to continue to maintain certain producer compensation disclosure and ongoing compliance initiatives.

*Actions Relating to Workers' Compensation Premium Reporting Northern District of Illinois.* On May 24, 2007, the National Workers' Compensation Reinsurance Pool (the NWCRP), on behalf of its participant members, filed a lawsuit in the United States District Court for the Northern District of Illinois against AIG with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint alleged claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG's alleged underpayment of these assessments between 1970 and the present and sought damages purportedly in excess of \$1 billion. On August 6, 2007, the Court denied AIG's motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the Court denied

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AIG's motion to dismiss the complaint. On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against the National Council on Compensation Insurance (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. The counterclaim-defendants and third-party defendants filed motions to dismiss on June 9, 2008. On January 26, 2009, AIG filed a motion to dismiss all claims in the complaint for lack of subject-matter jurisdiction. On February 23, 2009, the Court issued a decision and order sustaining AIG's counterclaims and sustaining, in part, AIG's third-party claims. The Court also dismissed certain of AIG's third-party claims without prejudice. On April 13, 2009, third-party defendant Liberty Mutual filed third-party counterclaims against AIG, certain of its subsidiaries, and former AIG executives. On August 23, 2009, the Court granted AIG's motion to dismiss the complaint for lack of standing. On September 25, 2009, AIG filed its First Amended Complaint, reasserting its RICO claims against certain insurance companies that both underreported their workers' compensation premium and served on the NWCRP Board, and repleading its fraud and other state law claims. Defendants filed a motion to dismiss the First Amended Complaint on October 30, 2009. On October 8, 2009, Liberty Mutual filed an amended counterclaim against AIG. The amended counterclaim is substantially similar to the complaint initially filed by the NWCRP, but also seeks damages related to non-NWCRP states, guaranty funds, and special assessments, in addition to asserting claims for other violations of state law. The amended counterclaim also removes as defendants the former AIG executives. On October 30, 2009, AIG filed a motion to dismiss the Liberty amended counterclaim. Discovery is proceeding and fact discovery is currently scheduled to be completed by March 15, 2011.

On April 1, 2009, Safeco Insurance Company of America and Ohio Casualty Insurance Company filed a complaint in the United States District Court for the Northern District of Illinois, on behalf of a purported class of all NWCRP participant members, against AIG and certain of its subsidiaries with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint was styled as an "alternative complaint," should the Court grant AIG's motion to dismiss the NWCRP lawsuit for lack of subject-matter jurisdiction. The allegations in the class action complaint are substantially similar to those filed by the NWCRP, but the complaint names former AIG executives as defendants and asserts a RICO claim against those executives. On August 28, 2009, the class action plaintiffs filed an amended complaint, removing the AIG executives as defendants. On October 30, 2009, AIG filed a motion to dismiss the amended complaint. Discovery related to class certification issues has begun and is scheduled to be completed by March 12, 2010. Discovery is proceeding and is currently scheduled to be completed by March 15, 2011.

***Litigation Matters Relating to AIG's General Insurance Operations***

*Caremark.* AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In addition, the intervenor-plaintiffs originally alleged that various lawyers and law firms who represented parties in the underlying class and derivative litigation (the Lawyer Defendants) were also liable for fraud and suppression, misrepresentation, and breach of fiduciary duty. The complaints filed by the plaintiffs and the intervenor-plaintiffs request compensatory damages for the 1999 class in the amount of \$3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression and have asserted that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs' assertions that the statute was tolled cannot stand against the public

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disclosure of the excess coverage. The plaintiffs and intervenor-plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations. On November 26, 2007, the trial court issued an order that dismissed the intervenors' complaint against the Lawyer Defendants and entered a final judgment in favor of the Lawyer Defendants. The matter was stayed pending appeal to the Alabama Supreme Court. In September 2008, the Alabama Supreme Court affirmed the trial court's dismissal of the Lawyer Defendants. After the case was sent back down to the trial court, the intervenor-plaintiffs retained additional counsel the law firm of Haskell Slaughter Young & Rediker, LLC (Haskell Slaughter) and filed an Amended Complaint in Intervention on December 1, 2008. The Amended Complaint in Intervention names only Caremark and AIG and various subsidiaries as defendants and purports to bring claims against all defendants for deceit and conspiracy to deceive. In addition, the Amended Complaint in Intervention purports to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception. The defendants have moved to dismiss the Amended Complaint, and, in the alternative, for a more definite statement. The intervenor-plaintiffs have yet to respond to defendants' motion but have indicated to the court that they intend to remedy any defects in their Amended Complaint by filing another amended complaint. After the appearance of the Haskell Slaughter firm on behalf of the intervenor-plaintiffs, the plaintiffs moved to disqualify all of the lawyers for the intervenor-plaintiffs because, among other things, the Haskell Slaughter firm previously represented Caremark. The intervenor-plaintiffs, in turn, moved to disqualify the lawyers for the plaintiffs in the first-filed action. The trial court heard oral argument on the motions to disqualify on February 6, 2009. On March 2, 2009, both sets of plaintiffs filed motions to withdraw their respective motions to disqualify each other after reaching an agreement among themselves that the Lauriello plaintiffs would act as lead counsel. The McArthur intervenors also moved to withdraw their Amended Complaint in Intervention. The trial court granted all motions to withdraw and ordered the parties to appear on March 26, 2009 for a status conference. Before the conference, the McArthur intervenors purported to dismiss their claims against Lauriello with prejudice pursuant to Ala. R. Civ. P. 41. The defendants argued that such dismissal was improper absent Court approval, but the Court approved the dismissal on April 2, 2009. At a class action scheduling conference held on April 14, 2009, the Court established a schedule for class action discovery that led to a hearing on class certification in March 2010. The Court then entered an order appointing a special master to resolve certain discovery disputes and requiring the parties to submit a new discovery schedule after those disputes are resolved. The parties are presently engaged in class discovery.

***Litigation Matters Relating to AIG's Domestic Life Insurance & Retirement Services Operations***

*Superior National.* On December 30, 2004, an arbitration panel issued its ruling in connection with a 1998 workers' compensation quota share reinsurance agreement under which Superior National Insurance Company, among others, was reinsured by USLIFE, a subsidiary of AGC. In its 2-1 ruling, the arbitration panel refused to rescind the contract as requested by USLIFE. Instead, the panel reformed the contract to reduce USLIFE's participation by ten percent. Further, the arbitration ruling established a second phase of arbitration for USLIFE to present its challenges to certain cessions to the contract. In the second phase the arbitration panel issued two awards resolving the challenges in favor of the cedents. On January 4, 2010, the Ninth Circuit Court of Appeals affirmed the arbitration awards. USLIFE is currently considering its legal options. AIG had reserves of \$639 million as of March 31, 2010. AIG believes that the reserves should be adequate to fund unpaid claims.

**(b) Commitments*****Flight Equipment***

At March 31, 2010, ILFC had committed to purchase 120 new aircraft deliverable from 2010 through 2019, at an estimated aggregate purchase price of \$13.7 billion, including \$243 million for 2010. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

Included in the 120 new aircraft are 74 Boeing 787 aircraft (B787s), with the first aircraft currently scheduled to be delivered in July 2012. ILFC is in discussion with Boeing related to revisions to the delivery schedule and

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potential delay compensation and penalties for which ILFC may be eligible. ILFC has signed contracts for 29 of the 74 B787s on order. Under the terms of ILFC's B787 leases, the lessees may be entitled to share in any compensation which ILFC receives from Boeing for late delivery of the aircraft.

***Other Commitments***

On March 29, 2010, AIG's Compensation and Management Resources Committee approved AIG's 2010 Long Term Incentive Plan (LTIP) and an additional component to AIG's 2009 LTIP for middle management employees throughout AIG. Under both plans, recipients were offered the opportunity to receive additional compensation in the form of cash and stock appreciation rights (SARs) if certain metrics are met. The ultimate value is contingent on the achievement of performance measures aligned to the participant's business unit over a two-year period and such value could range from zero to twice the target amount. Subsequent to the performance period, portions of the earned awards are subject to an additional time-vesting period of up to two years. The awards granted to participants based on their target amounts for the 2010 LTIP totaled approximately \$380 million for the cash and SARs components, while the SARs component of the 2009 LTIP totaled approximately \$90 million. AIG recognizes compensation expense over the vesting period for these plans.

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled \$6.2 billion at March 31, 2010.

On June 27, 2005, AIG entered into an agreement pursuant to which AIG agreed, subject to certain conditions, to make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as discussed in (c) below under "Benefits Provided by Starr International Company, Inc.").

**(c) Contingencies**

***Liability for unpaid claims and claims adjustment expense***

Although AIG regularly reviews the adequacy of the established Liability for unpaid claims and claims adjustment expense, there can be no assurance that AIG's ultimate Liability for unpaid claims and claims adjustment expense will not develop adversely and materially exceed AIG's current Liability for unpaid claims and claims adjustment expense. Estimation of ultimate net claims, claims adjustment expenses and Liability for unpaid claims and claims adjustment expense is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, directors and officers liability (D&O), professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be 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 reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

***Benefits Provided by Starr International Company, Inc.***

SICO has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans were created in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG Common Stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG.

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American International Group, Inc., and Subsidiaries

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None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting amount credited to Additional paid-in capital reflecting amounts considered to be contributed by SICO. The SICO Plans provide that shares currently owned by SICO are set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant's voluntary termination of employment with AIG prior to normal retirement age. Under the SICO Plans, SICO's Board of Directors may elect to pay a participant cash in lieu of shares of AIG Common Stock. Following notification from SICO to participants in the SICO Plans that it will settle specific future awards under the SICO Plans with shares rather than cash, AIG modified its accounting for the SICO Plans from variable to fixed measurement accounting. AIG gave effect to this change in settlement method beginning on December 9, 2005, the date of SICO's notice to participants in the SICO Plans.

**(d) Guarantees**

See Note 7 herein for commitments and guarantees associated with VIEs.

See Note 8 herein for disclosures on derivatives, including AIGFP and MIP written credit default swaps and other derivatives with credit risk-related contingent features.

See Note 15 herein for additional disclosures on guarantees of outstanding debt.

***Subsidiaries***

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIG Financial Products and certain of its subsidiaries arising from transactions entered into by such companies.

In connection with AIGFP's leasing business, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at March 31, 2010 was \$1.3 billion. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is usually, but not always, partially offset by amounts payable under other instruments typically equal to the accreted value of a deposit held by AIGFP. In the event AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay. AIGFP selected transactions in which it agreed to provide this product only in circumstances where lessee bankruptcy is considered remote or, in the case of certain municipal lessees, not permitted under current law.

***Asset Dispositions***

AIG is also subject to financial guarantees and indemnity arrangements in connection with the sales of businesses pursuant to its asset disposition plan, including the sales of AIA and ALICO. The various indemnities and guarantees may be triggered by, among other things, breaches of representations, warranties or covenants provided by AIG. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. AIG is unable to develop an estimate of the maximum payout under certain of these guarantees and indemnifications. However,



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AIG believes that it is unlikely it will have to make any material payments under these arrangements, and no significant liabilities related to these arrangements have been recorded in the Consolidated Balance Sheet. See Note 1 herein for additional information on sales of businesses and asset dispositions.

**10. Total Equity and Earnings (Loss) Per Share**

The following table provides a reconciliation of the beginning and ending balances of the components of total equity (excluding the effects of redeemable noncontrolling interests):

Three Months Ended March 31, <i>(In millions)</i>	2010			2009		
	Total AIG Shareholders' Equity	Non- Controlling Interest	Total Equity	Total AIG Shareholders' Equity	Non- Controlling Interest	Total Equity
Balance, beginning of year	\$ 69,824	\$ 28,252	\$ 98,076	\$ 52,710	\$ 8,095	\$ 60,805
Series C issuance	-	-	-	1	-	1
Series F drawdowns	2,199	-	2,199	-	-	-
Common stock issued under stock plans	(5)	-	(5)	(1)	-	(1)
Cumulative effect of change in accounting principle, net of tax	(107)	-	(107)	15	-	15