AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 05, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2011

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of April 29, 2011, there were 1,796,747,575 shares outstanding of the registrant's common stock.

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

(in millions, except for share data)		**March 31, 2011**		**December 31, 2010**
Assets:				
Investments:				
Fixed maturity securities:				
Bonds available for sale, at fair value (amortized cost: 2011 $229,589; 2010 $220,669)	**$**	**238,315**	$	228,302
Bond trading securities, at fair value		**27,309**		26,182
Equity securities:				
Common and preferred stock available for sale, at fair value (cost: 2011 $1,933; 2010 $2,571)		**3,873**		4,581
Common and preferred stock trading, at fair value		**163**		6,652
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2011 $138; 2010 $143)		**19,691**		20,237
Flight equipment primarily under operating leases, net of accumulated depreciation		**38,100**		38,510
Other invested assets (portion measured at fair value: 2011 $21,729; 2010 $21,356)		**42,900**		42,210
Short-term investments (portion measured at fair value: 2011 $17,676; 2010 $23,860)		**38,872**		43,738
Total investments		**409,223**		410,412
Cash		**1,801**		1,558
Accrued investment income		**3,060**		2,960
Premiums and other receivables, net of allowance		**17,509**		15,713
Reinsurance assets, net of allowance		**30,177**		25,810
Deferred policy acquisition costs		**14,636**		14,668
Derivative assets, at fair value		**4,997**		5,917
Other assets, including restricted cash of $3,952 in 2011 and $30,232 in 2010 (portion measured at fair value: 2011 $8; 2010 $14)		**14,594**		44,520
Separate account assets, at fair value		**56,470**		54,432
Assets held for sale		**58,780**		107,453
Total assets	**$**	**611,247**	$	683,443
Liabilities:				
Liability for unpaid claims and claims adjustment expense	**$**	**94,978**	$	91,151
Unearned premiums		**26,337**		23,803
Future policy benefits for life and accident and health insurance contracts		**31,493**		31,268
Policyholder contract deposits (portion measured at fair value: 2011 $369; 2010 $445)		**122,775**		121,373
Other policyholder funds		**6,769**		6,758
Current and deferred income taxes		**1,908**		2,369
Derivative liabilities, at fair value		**5,500**		5,735
Other liabilities (portion measured at fair value: 2011 $1,354; 2010 $2,619)		**31,168**		29,108
Federal Reserve Bank of New York credit facility (see Note 1)		**-**		20,985
Other long-term debt (portion measured at fair value: 2011 $11,604; 2010 $12,143)		**82,166**		85,476
Separate account liabilities		**56,470**		54,432
Liabilities held for sale		**54,236**		97,312
Total liabilities		**513,800**		569,770
Commitments, contingencies and guarantees (see Note 11)				
Redeemable noncontrolling interests (see Note 1):				
Noncontrolling nonvoting, callable, junior preferred interests held by Department of Treasury		**11,324**		-
Other		**278**		434

Total redeemable noncontrolling interests	**11,602**	434
AIG shareholders' equity (see Note 1):		
Preferred stock		
Series E; $5.00 par value; shares issued: 2011 0; 2010 400,000, at aggregate liquidation value	**-**	41,605
Series F; $5.00 par value; shares issued: 2011 0; 2010 300,000, aggregate liquidation value: $7,543	**-**	7,378
Series C; $5.00 par value; shares issued: 2011 0; 2010 100,000, aggregate liquidation value: $0.5	**-**	23,000
Series G; $5.00 par value; shares issued: 2011 20,000, at aggregate liquidation value: 2010 $0	**-**	-
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2011 1,803,380,795; 2010 147,124,067	**4,508**	368
Treasury stock, at cost; 2011 6,660,852; 2010 6,660,908 shares of common stock	**(873)**	(873)
Additional paid-in capital	**77,697**	9,683
Accumulated deficit	**(3,202)**	(3,466)
Accumulated other comprehensive income	**6,896**	7,624
Total AIG shareholders' equity	**85,026**	85,319
Non-redeemable noncontrolling interests (see Note 1):		
Nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**-**	26,358
Other (including $185 and $204 associated with businesses held for sale in 2011 and 2010, respectively)	**819**	1,562
Total non-redeemable noncontrolling interests	**819**	27,920
Total equity	**85,845**	113,239
Total liabilities and equity	**$ 611,247**	$ 683,443

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Income

Three Months Ended March 31, *(dollars in millions, except per share data)*	2011	2010
Revenues:		
Premiums	**$ 9,482**	$ 10,914
Policy fees	**684**	648
Net investment income	**5,569**	5,200
Net realized capital losses:		
Total other-than-temporary impairments on available for sale securities	**(218)**	(200)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive income	**3**	(459)
Net other-than-temporary impairments on available for sale securities recognized in net income	**(215)**	(659)
Other realized capital gains (losses)	**(436)**	325
Total net realized capital losses	**(651)**	(334)
Aircraft leasing revenue	**1,156**	1,243
Other income	**1,196**	884
Total revenues	**17,436**	18,555
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	**8,959**	8,593
Interest credited to policyholder account balances	**1,105**	1,109
Amortization of deferred acquisition costs	**1,716**	2,022
Other acquisition and insurance expenses	**1,551**	1,610
Interest expense	**1,061**	1,751
Aircraft leasing expenses	**670**	1,004
Loss on extinguishment of debt (see Note 1)	**3,313**	-
Net loss on sale of properties and divested businesses	**72**	76
Other expenses	**369**	749
Total benefits, claims and expenses	**18,816**	16,914
Income (loss) from continuing operations before income tax benefit	**(1,380)**	1,641
Income tax benefit	**(200)**	(447)
Income (loss) from continuing operations	**(1,180)**	2,088
Income from discontinued operations, net of income tax expense (see Note 4)	**1,653**	343
Net income	**473**	2,431
Less:		

Net income from continuing operations attributable to noncontrolling interests:				
Noncontrolling nonvoting, callable, junior and senior preferred interests		**252**		519
Other		**(55)**		119
Total net income from continuing operations attributable to noncontrolling interests		**197**		638
Net income from discontinued operations attributable to noncontrolling interests		**7**		10
Total net income attributable to noncontrolling interests		**204**		648
Net income attributable to AIG	**$**	**269**	$	1,783
Net income (loss) attributable to AIG common shareholders	**$**	**(543)**	$	359
Income per common share attributable to AIG:				
Basic:				
Income (loss) from continuing operations	**$**	**(1.41)**	$	2.16
Income from discontinued operations	**$**	**1.06**	$	0.50
Diluted:				
Income (loss) from continuing operations	**$**	**(1.41)**	$	2.16
Income from discontinued operations	**$**	**1.06**	$	0.50
Weighted average shares outstanding:				
Basic		**1,557,748,353**		135,658,680
Diluted		**1,557,748,353**		135,724,939

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income (Loss)

Three Months Ended March 31, *(in millions)*	2011	2010
Net income	**$ 473**	$ 2,431
Other comprehensive income (loss):		
Unrealized appreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	**612**	993
Income tax expense on above changes	**(216)**	(220)
Unrealized appreciation (depreciation) of all other investments net of reclassification adjustments	**(1,144)**	2,531
Income tax benefit (expense) on above changes	**413**	(1,374)
Foreign currency translation adjustments	**(944)**	(958)
Income tax benefit on above changes	**296**	429
Net derivative gains arising from cash flow hedging activities net of reclassification adjustments	**18**	24
Income tax expense on above changes	**(5)**	(2)
Change in retirement plan liabilities adjustment	**250**	77
Income tax expense on above changes	**(115)**	(24)
Other comprehensive income (loss)	**(835)**	1,476
Comprehensive income (loss)	**(362)**	3,907
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	**252**	519
Comprehensive loss attributable to other noncontrolling interests	**(12)**	(31)
Total comprehensive income attributable to noncontrolling interests	**240**	488
Comprehensive income (loss) attributable to AIG	**$ (602)**	$ 3,419

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

Three Months Ended March 31, *(in millions)*	**2011**	2010
Cash flows from operating activities:		
Net income	**$ 473**	$ 2,431
Income from discontinued operations	**(1,653)**	(343)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net (gains) losses on sales of securities available for sale and other assets	**57**	(553)
Net losses on sales of divested businesses	**72**	76
Loss on extinguishment of debt	**3,313**	-
Unrealized (gains) losses in earnings net	**(2,004)**	773
Equity in income from equity method investments, net of dividends or distributions	**(614)**	(299)
Depreciation and other amortization	**2,288**	2,813
Provision for mortgage and other loans receivable	**(3)**	156
Impairments of assets	**445**	1,542
Amortization of costs and accrued interest and fees related to FRBNY Credit Facility	**48**	843
Changes in operating assets and liabilities:		
General and life insurance reserves	**5,824**	3,305
Premiums and other receivables and payables net	**(676)**	(1,168)
Reinsurance assets and funds held under reinsurance treaties	**(4,049)**	(3,668)
Capitalization of deferred policy acquisition costs	**(1,754)**	(2,099)
Other policyholder funds	**(104)**	114
Current and deferred income taxes net	**(585)**	(1,365)
Trading securities	**278**	21
Payment of FRBNY Credit Facility accrued compounded interest and fees	**(6,363)**	-
Other, net	**(1,535)**	(1,058)
Total adjustments	**(5,362)**	(567)
Net cash provided by (used in) operating activities continuing operations	**(6,542)**	1,521
Net cash provided by operating activities discontinued operations	**1,230**	1,674
Net cash provided by (used in) operating activities	**(5,312)**	3,195
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of available for sale investments	**11,665**	7,879
Maturities of fixed maturity securities available for sale and hybrid investments	**4,305**	2,869
Sales of trading securities	**6,987**	2,054
Sales or distributions of other invested assets (including flight equipment)	**2,671**	2,220
Sales of divested businesses, net	**-**	1,472
Principal payments received on and sales of mortgage and other loans receivable	**759**	1,675
Purchases of available for sale investments	**(19,456)**	(15,737)
Purchases of trading securities	**(199)**	(817)
Purchases of other invested assets (including flight equipment)	**(1,488)**	(2,120)
Mortgage and other loans receivable issued and purchased	**(403)**	(899)
Net change in restricted cash	**26,280**	(491)
Net change in short-term investments	**4,180**	(1,959)
Net change in derivative assets and liabilities other than Capital Markets	**79**	(204)
Other, net	**32**	(49)
Net cash provided by (used in) investing activities continuing operations	**35,412**	(4,107)
Net cash provided by (used in) investing activities discontinued operations	**4,205**	(409)

Net cash provided by (used in) investing activities	**39,617**	(4,516)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**4,804**	4,753
Policyholder contract withdrawals	**(3,684)**	(3,743)
Net change in short-term debt	**(235)**	(3,565)
Federal Reserve Bank of New York credit facility borrowings	**-**	8,300
Federal Reserve Bank of New York credit facility repayments	**(14,622)**	(4,551)
Issuance of other long-term debt	**183**	3,669
Repayments on other long-term debt	**(3,894)**	(3,905)
Proceeds from drawdown on the Department of Treasury Commitment	**20,292**	2,199
Repayment of Department of Treasury SPV Preferred Interests	**(9,146)**	-
Repayment of Federal Reserve Bank of New York SPV Preferred Interests	**(26,432)**	-
Issuance of Common Stock	**723**	-
Acquisition of noncontrolling interest	**(533)**	-
Other, net	**(304)**	(664)
Net cash provided by (used in) financing activities continuing operations	**(32,848)**	2,493
Net cash used in financing activities discontinued operations	**(1,637)**	(2,759)
Net cash used in financing activities	**(34,485)**	(266)
Effect of exchange rate changes on cash	**23**	(42)
Net decrease in cash	**(157)**	(1,629)
Cash at beginning of period	**1,558**	4,400
Change in cash of businesses held for sale	**400**	(638)
Cash at end of period	**$ 1,801**	$ 2,133

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Equity

Three Months Ended March 31, 2011 *(in millions)*	**Preferred Stock**	**Common Stock**	**Treasury Stock**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income**	**Total AIG Share-holders' Equity**	**Non-redeemable non-controlling Interests**	**Total Equity**
Balance, beginning of year	**$ 71,983**	**$ 368**	**$ (873)**	**$ 9,683**	**$ (3,466)**	**$ 7,624**	**$ 85,319**	**$ 27,920**	**$ 113,239**
Series F drawdown	**20,292**	**-**	**-**	**-**	**-**	**-**	**20,292**	**-**	**20,292**
Repurchase of SPV preferred interests in connection with Recapitalization*	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26,432)**	**(26,432)**
Exchange of consideration for preferred stock in connection with Recapitalization*	**(92,275)**	**4,138**	**-**	**67,460**	**-**	**-**	**(20,677)**	**-**	**(20,677)**
Settlement of equity unit stock purchase contract	**-**	**3**	**-**	**720**	**-**	**-**	**723**	**-**	**723**
Net income (loss) attributable to AIG or other noncontrolling interests	**-**	**-**	**-**	**-**	**269**	**-**	**269**	**(57)**	**212**
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**74**	**74**
Other comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(871)**	**(871)**	**37**	**(834)**
Acquisition of noncontrolling interest	**-**	**-**	**-**	**(172)**	**-**	**143**	**(29)**	**(509)**	**(538)**
Net decrease due to deconsolidation	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(109)**	**(109)**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**5**	**5**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(101)**	**(101)**
Other	**-**	**(1)**	**-**	**6**	**(5)**	**-**	**-**	**(9)**	**(9)**
Balance, end of period	**$ -**	**$ 4,508**	**$ (873)**	**$ 77,697**	**$ (3,202)**	**$ 6,896**	**$ 85,026**	**$ 819**	**$ 85,845**

* *See Notes 1 and 12.*

See Accompanying Notes to Consolidated Financial Statements.

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Basis of Presentation and Recent Events

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2010 (AIG's 2010 Annual Report on Form 10-K). The condensed consolidated financial information as of December 31, 2010 has been derived from audited consolidated financial statements not included herein.

Financial information for certain foreign subsidiaries is reported on different period end bases, in most cases one month prior to AIG. The effect on AIG's consolidated financial condition and results of operations of all material events occurring between January 1, 2011 and March 31, 2011 has been recorded in the first quarter of 2011. AIG determined the Great Tohoku Earthquake & Tsunami (the Tohoku Catastrophe) in Japan in March 2011 to be an intervening event that had a material effect on AIG's consolidated financial position and results of operations. Accordingly, AIG recorded catastrophe losses for these entities from the Tohoku Catastrophe of $864 million in its Chartis International operations related to this event.

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. Interim period operating results may not be indicative of the operating results for a full year. AIG evaluated the need to recognize or disclose events that occurred subsequent to 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 that its accounting policies that are most dependent on the application of estimates and assumptions are those relating to items considered by management in the determination of:

- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- recoverability of assets, including deferred policy acquisition costs (DAC) and flight equipment;
- estimated gross profits for investment-oriented products;
- impairment charges, including other-than-temporary impairments;
- liabilities for legal contingencies;
- 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); and

classification of entities as held for sale or as discontinued operations.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Reclassifications

Due to changes in the relative composition of AIG's remaining continuing operations as a result of the substantial completion of AIG's asset disposition plan, AIG is presenting separately the following line items on its Consolidated Statement of Income (Loss) beginning in the current quarter:

Current line item:	Previously included in line item:
Policy fees[(a)]	Premiums and other considerations
Aircraft leasing revenues and Aircraft leasing expenses, respectively	Other income and Other expenses, respectively
Interest credited to policyholder account balances[(b)]	Policyholder benefits and claims incurred
Amortization of deferred acquisition costs	Policy acquisition and other insurance expenses

(a) *Represents fees recognized from universal life and investment-type products, consisting of policy charges for the cost of insurance, policy administration charges, amortization of unearned revenue reserves and surrender charges.*

(b) *Represents interest on account-value-based policyholder deposits, consisting of amounts credited on non-equity-indexed account values, accretion to the host contract for equity indexed products, and net amortization of sales inducements.*

Prior period amounts were reclassified to conform to the current period presentation for the above line items. Additionally, certain other reclassifications have been made to prior period amounts in the Consolidated Statement of Income (Loss) and Consolidated Balance Sheet to conform to the current period presentation. See Notes 3 and 4 herein for revisions and reclassifications to prior period amounts attributable to discontinued operations.

Recent Events

AIG completed the Recapitalization (described below) and has substantially completed its asset disposition plan and has executed multiple capital markets transactions.

Recapitalization

On January 14, 2011 (the Closing), AIG completed a series of integrated transactions to recapitalize AIG (the Recapitalization) with the United States Department of the Treasury (the Department of the Treasury), the Federal Reserve Bank of New York (the FRBNY) and the AIG Credit Facility Trust (the Trust), including the repayment of all amounts owed under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Facility). AIG recognized a loss on extinguishment of debt in the first quarter of 2011, representing primarily accelerated amortization of the prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility on January 14, 2011.

Repayment and Termination of the FRBNY Credit Facility

At the Closing, AIG repaid to the FRBNY approximately $21 billion in cash, representing complete repayment of all amounts owed under the FRBNY Credit Facility, and the FRBNY Credit Facility was terminated. The funds for the repayment came from the net cash proceeds from AIG's sale of 67 percent of the ordinary shares of AIA Group Limited (AIA) in its initial public offering and from AIG's sale of American Life Insurance Company (ALICO). These funds were loaned to AIG, in the form of secured limited recourse debt (the SPV Intercompany Loans), from the special purpose vehicles that held the proceeds of the AIA IPO and the ALICO sale (the AIA SPV and the ALICO SPV, respectively, and collectively, the SPVs, and such loans, the SPV Intercompany Loans). The SPV Intercompany Loans are secured by pledges and any

proceeds received from the sale by AIG and certain of its subsidiaries of, among other collateral, all or part of their equity interests in Nan Shan Life Insurance Company, Ltd. (Nan Shan) and International Lease Finance Corporation (ILFC and, together with Nan Shan, the Designated Entities), as well as the remaining AIA ordinary shares held by the AIA SPV. Until their

sale on February 1, 2011, AIG's Japan-based life insurance subsidiaries, AIG Star Life Insurance Company Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison), were also Designated Entities.

Repurchase and Exchange of SPV Preferred Interests

At the Closing, AIG drew down approximately $20.3 billion (the Series F Closing Drawdown Amount) under the Department of the Treasury's commitment (the Department of the Treasury Commitment (Series F)) pursuant to the Securities Purchase Agreement, dated as of April 17, 2009 (the Series F SPA), between AIG and the Department of the Treasury relating to AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series F Preferred Stock). The Series F Closing Drawdown Amount was the full amount remaining under the Department of the Treasury Commitment (Series F), less $2 billion that AIG designated to be available after the closing for general corporate purposes under a commitment relating to AIG's Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock), described below (the Series G Drawdown Right). The right of AIG to draw on the Department of the Treasury Commitment (Series F) (other than the Series G Drawdown Right) was terminated.

AIG used the Series F Closing Drawdown Amount to repurchase all of the FRBNY's preferred interests in the SPVs (the SPV Preferred Interests). AIG transferred the SPV Preferred Interests to the Department of the Treasury as part of the consideration for the exchange of the Series F Preferred Stock described below.

The Department of the Treasury, so long as it holds SPV Preferred Interests, has the right, subject to existing contractual restrictions, to require AIG to dispose of the remaining AIA common shares held by the AIA SPV. In addition, the consent of the Department of the Treasury, so long as it holds SPV Preferred Interests, will be required for AIG to take specified significant actions with respect to the Designated Entities, including initial public offerings, sales, significant acquisitions or dispositions and incurrence of specified levels of indebtedness. If any SPV Preferred Interests are outstanding on May 1, 2013, the Department of the Treasury will have the right to compel the sale of all or a portion of one or more of the Designated Entities on terms that it will determine.

As a result of these transactions, the SPV Preferred Interests are no longer considered permanent equity on AIG's balance sheet, and are classified as Redeemable noncontrolling nonvoting, callable, junior preferred interests in partially owned consolidated subsidiaries held by the Department of the Treasury.

Issuance of AIG's Series G Preferred Stock

At the Closing, AIG and the Department of the Treasury amended and restated the Series F SPA to provide for the issuance of 20,000 shares of Series G Preferred Stock by AIG to the Department of the Treasury. The Series G Preferred Stock was issued with a liquidation preference of zero, which will increase by the amount of any funds drawn down by AIG under the Series G Drawdown Right from the Closing until March 31, 2012 (or the earlier termination of the Series G Drawdown Right).

Dividends on the Series G Preferred Stock are payable on a cumulative basis at a rate per annum of 5 percent, compounded quarterly, of the aggregate liquidation preference outstanding from time to time of the Series G Preferred Stock and may be paid, at AIG's option, in cash or in increases in the liquidation preference.

The available funding under the Series G Drawdown Right that may be used for general corporate purposes will be reduced by the amount of net proceeds of future AIG equity offerings. Net proceeds from an equity offering in excess of the available funding under the Series G Drawdown Right will be required to be used to pay down any liquidation preference of the Series G Preferred Stock. The Series G Preferred Stock is redeemable at any time in cash at AIG's option, at a redemption price equal to the liquidation preference plus accrued and unpaid dividends.

If the Series G Preferred Stock has an outstanding liquidation preference on March 31, 2012, it will be converted into a number of shares of AIG common stock, par value $2.50 per share (AIG Common Stock), equal to the amount of the liquidation preference on that date plus accrued and unpaid dividends divided by $29.29.

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Exchange of AIG's Series C, E and F Preferred Stock for AIG Common Stock and Series G Preferred Stock

At the Closing:

- the shares of AIG's Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (the Series C Preferred Stock), held by the Trust were exchanged for 562,868,096 shares of newly issued AIG Common Stock which were subsequently transferred by the Trust to the Department of the Treasury;

- the shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series E Preferred Stock), held by the Department of the Treasury were exchanged for 924,546,133 newly issued shares of AIG Common Stock;

- the shares of the Series F Preferred Stock held by the Department of the Treasury were exchanged for (a) the SPV Preferred Interests, (b) 20,000 shares of the Series G Preferred Stock and (c) 167,623,733 shares of newly issued AIG Common Stock; and

- as a result of the Recapitalization and at March 31, 2011, the Department of the Treasury holds 1,655,037,962 shares of AIG Common Stock, representing ownership of approximately 92.2 percent of outstanding AIG Common Stock.

The issuance of AIG Common Stock as described above significantly affected the determination of net income attributable to common shareholders and the weighted average shares outstanding, both of which are used to compute earnings per share. See Note 12 herein for further discussion.

AIG entered into a registration rights agreement with the Department of the Treasury that granted the Department of the Treasury registration rights with respect to the shares of AIG Common Stock issued at the Closing, including:

- the right to participate in any registered offering of AIG Common Stock by AIG after the Closing;

- the right to demand no more than twice in any 12-month period that AIG effect a registered market offering of its shares after the earlier of August 15, 2011 and the date of AIG's completion of a primary equity offering;

- the right to engage in at-the-market offerings; and

- subject to certain exceptions, the right to approve the terms, conditions and pricing of any registered offering in which it participates until its ownership falls below 33 percent of AIG's voting securities.

AIG has the right to:

- raise up to $3 billion (and up to an additional $4 billion with the consent of the Department of the Treasury) by January 14, 2012 in a registered primary offering; and

raise the greater of $2 billion and the amount of the projected deficit if the AIG Board of Directors determines, after consultation with the Department of the Treasury, that due to events affecting AIG's insurance subsidiaries, AIG Parent's reasonably projected aggregate liquidity (cash, cash equivalents and commitments of credit, but not the Series G Drawdown Right) will fall below $8 billion within 12 months of the date of such determination.

Until the Department of the Treasury's ownership of AIG's voting securities falls below 33 percent, the Department of the Treasury will, subject to certain exceptions, have complete control over the terms, conditions and pricing of any offering in which it participates, including any primary offering by AIG. As a result, if AIG seeks to conduct an offering of its equity securities (other than an offering described in the preceding paragraph) the Department of the Treasury may decide to participate in the offering, and to prevent AIG from selling any equity securities.

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Issuance of Warrants to Purchase AIG Common Stock

On January 19, 2011, as part of the Recapitalization, AIG issued to the holders of record of AIG Common Stock as of January 13, 2011, by means of a dividend, ten-year warrants to purchase a total of 74,997,778 shares of AIG Common Stock at an exercise price of $45.00 per share. AIG retained 67,650 of these warrants for tax withholding purposes. Warrants were not issued to the Trust, the Department of the Treasury or the FRBNY.

Sales of Businesses

On February 1, 2011, AIG completed the sale of AIG Star and AIG Edison to Prudential Financial, Inc., for $4.8 billion, consisting of $4.2 billion in cash and $0.6 billion in the assumption of third-party debt. Of the $4.2 billion in cash, AIG retained $2 billion to support the capital of Chartis pursuant to an agreement with the Department of the Treasury, and caused the remaining amount to be applied to repay the Department of the Treasury's SPV Preferred Interests. AIG recognized a pre-tax gain of $1.9 billion on the sale which is reflected in Net income from discontinued operations in the Consolidated Statement of Income.

On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan Life Insurance Company, Ltd. (Nan Shan) for $2.16 billion in cash.

See Note 4 to the Consolidated Financial Statements for additional information on these transactions.

Sale of MetLife Securities

On March 1, 2011, AIG entered into a Coordination Agreement among the ALICO SPV, AIG and MetLife, Inc. (MetLife) regarding a series of integrated transactions (the MetLife Disposition) whereby MetLife agreed to allow AIG to offer for sale the MetLife securities that AIG received when it sold ALICO to MetLife earlier than contemplated under the original terms of the ALICO sale (the ALICO Sale). The MetLife Disposition included (i) the sale of MetLife common stock, par value $0.01 per share, and the sale of common equity units of MetLife pursuant to two separate underwritten public offerings and (ii) the sale by the ALICO SPV of MetLife preferred stock to MetLife.

In connection with the MetLife Disposition, on March 1, 2011, AIG and the ALICO SPV also entered into a letter agreement with the Department of the Treasury pursuant to which AIG and the ALICO SPV received the consent of the Department of the Treasury to the MetLife Disposition. AIG completed the MetLife Disposition on March 8, 2011 for a total of $9.6 billion and used $6.6 billion of the proceeds to repay all of the liquidation preference and accrued return of the Department of the Treasury's ALICO SPV Preferred Interests and a portion of the liquidation preference and accrued return of the Department of the Treasury's AIA SPV Preferred Interests. AIG recognized a loss of $348 million on the disposition in the quarter ended March 31, 2011, representing the decline in securities value since December 31, 2010 due to market conditions. Of this amount, $191 million is reflected in Net realized capital losses and $157 million is reflected in Net investment income in the Consolidated Statement of Income (Loss). The remaining proceeds were placed in escrow to secure indemnities provided to MetLife under the original terms of the ALICO stock purchase agreement as described in Note 11 herein.

Liquidity Assessment

In assessing AIG's current financial flexibility 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 potential for declines in bond and equity markets;

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

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AIG's continued ability to generate cash flow from operations;

the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies; and

the potential for regulatory limitations on AIG's business in one or more countries.

AIG believes that it has sufficient liquidity to meet future liquidity requirements, including reasonably foreseeable contingencies and events.

Supplementary Disclosure of Cash Flow Information

Three Months Ended March 31, ***(in millions)***		**2011**		**2010**
Supplementary disclosure of cash flow information:				
Cash paid during the period for:				
Interest*	**$**	**(5,796)**	$	(1,047)
Taxes	**$**	**(384)**	$	(604)
Non-cash financing/investing activities:				
Interest credited to policyholder contract deposits included in financing activities	**$**	**1,255**	$	2,086
Debt assumed on consolidation of variable interest entities	**$**	**-**	$	2,591
Debt assumed on acquisition	**$**	**-**	$	164

* *Includes payment of FRBNY credit facility accrued compounded interest of $4.7 billion in the three months ended March 31, 2011.*

2. Summary of Significant Accounting Policies

Recent Accounting Standards

Future Application of Accounting Standards

A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring

In April 2011, the Financial Accounting Standards Board (FASB) issued an accounting standard update that amends the guidance for a creditor's evaluation of whether a restructuring is a troubled debt restructuring and requires additional disclosures about a creditor's troubled debt restructuring activities. The new standard clarifies the existing guidance on the two criteria used by creditors to determine whether a modification or restructuring is a troubled debt restructuring: (i) whether the creditor has granted a concession and (ii) whether the debtor is experiencing financial difficulties. The new standard is effective for interim and annual periods beginning on July 1, 2011 with early adoption permitted. AIG is required to apply the guidance in the accounting standard retrospectively for all modifications and restructuring activities that have occurred since January 1, 2011. For receivables that are newly considered impaired under the guidance, AIG is required to measure the impairment of those receivables prospectively in the first period of adoption. In addition, AIG must begin providing the disclosures about troubled debt restructuring activities in the period of adoption. AIG is currently assessing the effect of adoption of this new standard on its consolidated financial condition, results of operations and cash flows.

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The new standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The new standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective

application is also permitted. AIG elected not to early adopt the standard and has not yet determined whether it will subsequently adopt it prospectively or retrospectively. Upon adoption, retrospective application would result in a reduction to beginning retained earnings for the earliest period presented, whereas prospective application would result in higher amortization expense being recognized in current and future periods relative to the retrospective method. The accounting standard update will result in a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts as AIG will only defer costs that are incremental and directly related to the successful acquisition of new or renewal business. AIG is currently assessing the effect of adoption of this new standard on its consolidated financial condition, results of operations and cash flows.

Accounting Standards Adopted During 2011

AIG adopted the following accounting standards during the first quarter of 2011:

Consolidation of Investments in Separate Accounts

In April 2010, the FASB issued an accounting standard that clarifies that an insurance company should not combine any investments held in separate account interests with its interest in the same investment held in its general account when assessing the investment for consolidation. Separate accounts represent funds for which investment income and investment gains and losses accrue directly to the policyholders who bear the investment risk. The standard also provides guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation of an investment is required and the insurer's interest is through its general account in addition to any separate accounts. The new standard became effective for AIG on January 1, 2011. The adoption of this new standard did not have a material effect on AIG's consolidated financial condition, results of operations or cash flows.

Fair Value Measurements and Disclosures

In January 2010, the FASB issued updated guidance that requires fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the rollforward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about the level of disaggregation and valuation techniques and inputs. This new guidance was effective for AIG beginning on January 1, 2010, except for the disclosures about purchases, sales, issuances, and settlements within the rollforward of Level 3 activity, which were effective for AIG beginning on January 1, 2011. See Note 6 herein.

3. Segment Information

AIG reports the results of its operations through three reportable segments: Chartis, SunAmerica Financial Group (SunAmerica) 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.

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

(in millions)	Reportable Segment Chartis	SunAmerica	Financial Services	Other Operations	Total	Consolidation and Eliminations	Consolidated
Three Months Ended March 31, 2011							
Total revenues	**$ 9,877**	**$ 3,839**	**$ 1,568**	**$ 2,332**	**$ 17,616**	**$ (180)**	**$ 17,436**
Pre-tax income (loss)	**(416)**	**940**	**325**	**(2,205)**	**(1,356)**	**(24)**	**(1,380)**
Three Months Ended March 31, 2010							
Total revenues	$ 9,181	$ 3,226	$ 1,290	$ 5,241	$ 18,938	$ (383)	$ 18,555
Pre-tax income (loss)	1,348	327	(202)	203	1,676	(35)	1,641

The following table presents AIG's insurance operations by operating segment:

(in millions)	Chartis U.S.	Chartis International	Total Chartis	Domestic Life Insurance	Domestic Retirement Services	Total SunAmerica
Three Months Ended March 31, 2011						
Total revenues	**$ 5,422**	**$ 4,455**	**$ 9,877**	**$ 1,962**	**$ 1,877**	**$ 3,839**
Pre-tax income (loss)	**224**	**(640)**	**(416)**	**338**	**602**	**940**
Three Months Ended March 31, 2010						
Total revenues	$ 5,403	$ 3,778	$ 9,181	$ 1,934	$ 1,292	$ 3,226
Pre-tax income (loss)	730	618	1,348	227	100	327

The following table presents AIG's Financial Services operations by operating segment:

(in millions)	Aircraft Leasing	Capital Markets	Other	Total	Consolidation and Eliminations	Total Financial Services

Three Months Ended March 31, 2011						
Total revenues	**$ 1,159**	**$ 370**	**$ 40**	**$ 1,569**	**$ (1)**	**$ 1,568**
Pre-tax income (loss)	**120**	**277**	**(72)**	**325**	**-**	**325**
Three Months Ended March 31, 2010						
Total revenues	$ 1,218	$ (22)	$ 121	$ 1,317	$ (27)	$ 1,290
Pre-tax income (loss)	(81)	(86)	(35)	(202)	-	(202)

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

			Asset Management Operations					
(in millions)	**Parent & Other**	**Mortgage Guaranty**	**Direct Investment Business**	**Institutional Asset Management**	**Divested Businesses**	**Change in ML III**	**Consolidation and Eliminations**	**Total Other Operations**
Three Months Ended March 31, 2011								
Total revenues	**$ 690**	**$ 238**	**$ 561**	**$ 83**	**$ 35**	**$ 744**	**$ (19)**	**$ 2,332**
Pre-tax income (loss)	**(3,441)**	**7**	**448**	**15**	**22**	**744**	**-**	**(2,205)**
Three Months Ended March 31, 2010								
Total revenues	$ 659	$ 298	$ 48	$ 214	$ 3,355	$ 751	$ (84)	$ 5,241
Pre-tax income (loss)	(1,098)	96	(147)	(74)	675	751	-	203

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4. Discontinued Operations and Held-for-Sale Classification

Discontinued Operations

AIG Star and AIG Edison Sale

On September 30, 2010, AIG entered into a definitive agreement with Prudential Financial, Inc. for the sale of its Japan-based insurance subsidiaries, AIG Star and AIG Edison, for total consideration of $4.8 billion, including the assumption of certain outstanding debt totaling $0.6 billion owed by AIG Star and AIG Edison. The transaction closed on February 1, 2011 and AIG recognized a pre-tax gain of $1.9 billion on the sale which is reflected in Income from discontinued operations, net of income tax expense, in the Consolidated Statement of Income (Loss). AIG has no continuing significant involvement with or significant continuing cash flows from AIG Star and AIG Edison. In connection with the sale, AIG recorded a goodwill impairment charge of $1.3 billion in 2010.

Nan Shan Sale Agreement

On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan for $2.16 billion to a Taiwan-based consortium. While AIG believes the consortium meets certain basic criteria established by the Financial Supervisory Commission of Taiwan, the transaction is still subject to regulatory approvals and customary closing conditions. The sale of Nan Shan is expected to be consummated in 2011. AIG continues to classify Nan Shan as a discontinued operation for all periods presented since AIG will not retain any interest or continuing involvement with Nan Shan and AIG is not expected to have significant continuing cash flows from Nan Shan.

These transactions met the criteria for held for sale accounting and discontinued operations classification.

Nan Shan, AIG Star and AIG Edison previously were components of the Foreign Life Insurance & Retirement Services reportable segment. Results from discontinued operations for the three months ended March 31, 2011 and 2010 include the results of AIG Star and AIG Edison through the date of disposal, and Nan Shan. Results from discontinued operations for the three months ended March 31, 2010 also include the results of ALICO and American General Finance, Inc. (AGF), which were sold during 2010. See Note 4 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for discussion of these sales and Note 11 herein for a discussion of guarantees and indemnifications associated with sales of businesses.

The following table summarizes income (loss) from discontinued operations:

Three Months Ended March 31, ***(in millions)***	**2011**	**2010**
Revenues:		
Premiums	**$ 2,549**	$ 5,030
Net investment income	**712**	1,892
Net realized capital gains (losses)	**369**	(151)
Other income	**5**	550
Total revenues	**3,635**	7,321
Benefits, claims and expenses	**3,094**	6,633
Interest expense allocation	**2**	19
Income from discontinued operations	**539**	669

Gain (loss) on sales	**1,594**	(107)
Income from discontinued operations, before income tax expense	**2,133**	562
Income tax expense	**480**	219
Income from discontinued operations, net of income tax expense	**$ 1,653**	$ 343

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Held-for-Sale Classification

The aggregate held-for-sale assets and liabilities are presented separately as single line items in the asset and liability sections of the Consolidated Balance Sheet at March 31, 2011 for Nan Shan and December 31, 2010 for Nan Shan, AIG Star and AIG Edison.

The following table summarizes assets and liabilities held for sale:

(in millions)	March 31, 2011	December 31, 2010
Assets:		
Fixed maturity securities	**$ 42,016**	$ 77,905
Deferred policy acquisition costs	**3,628**	7,095
Mortgage and other loans receivable, net	**4,111**	5,584
Equity securities	**2,766**	4,488
Other invested assets	**2,038**	4,167
Short-term investments	**1,488**	3,670
Separate account assets	**3,934**	3,745
Other assets	**(1,228)**	544
Assets of businesses held for sale	**58,753**	107,198
Flight equipment*	**27**	255
Total assets held for sale	**$ 58,780**	$ 107,453
Liabilities:		
Future policy benefits for life and accident and health insurance contracts	**$ 46,220**	$ 61,767
Policyholder contract deposits	**1,542**	26,847
Separate account liabilities	**3,934**	3,745
Other long-term debt	**-**	525
Other liabilities	**2,540**	4,428
Total liabilities held for sale	**$ 54,236**	$ 97,312

* *Represents one and nine aircraft that remain to be sold under agreements for sale by ILFC as of March 31, 2011 and December 31, 2010, respectively.*

5. 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 property/casualty insurance operations and a life insurance subsidiary. The acquisition of the additional voting shares for $145 million increased Chartis International's 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 consistent with Chartis International's desire to increase its share in the substantial Japanese insurance market, which is undergoing significant consolidation, and to achieve cost savings from synergies.

In February 2011 Chartis announced a cash tender offer for all of the remaining common shares and stock acquisition rights of Fuji that it did not previously own. The tender offer period expired on March 24, 2011, and approximately 305 million shares were tendered at an offer price of 146 Yen per share ($1.76 per share) for a purchase price of $538 million. As of March 31, 2011, Chartis owned 98.4 percent of Fuji's outstanding voting shares.

The 2011 purchase was accounted for as an equity transaction because AIG previously consolidated Fuji due to its controlling interest. Accordingly, the difference between the fair value of the consideration paid of $538 million and the carrying value of the noncontrolling interest acquired of $509 million was recognized as a reduction of AIG's equity. Identifiable net assets remained unchanged and there was no gain or loss recorded in consolidated net income.

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6. 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;
- non-traded equity investments and certain private limited partnerships and certain hedge funds included in Other invested assets;
- equity interest in AIA accounted for under the fair value option;
- certain short-term investments;
- securities purchased under agreements to resell included in Short-term investments;
- securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased included in Other liabilities;
- separate account assets;
- certain policyholder contract deposits;
- certain trust deposits and deposits due to banks and other depositors included in Other liabilities;
- 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 from the sale of an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. 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 for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. 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, liquidity 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, actively traded listed common stocks and futures and options 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

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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), certain commercial mortgage-backed securities (CMBS) and certain collateralized loan obligations/asset backed securities (CLO/ABS), certain listed equities, state, municipal and provincial obligations, hybrid securities, securities purchased (sold) under agreements to resell (repurchase), certain mutual fund and hedge fund investments, certain interest rate, currency and commodity derivative contracts, guaranteed investment agreements (GIAs) for the Direct Investment business, other long-term debt and physical commodities.

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. Therefore, AIG must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability. 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 collateralized debt obligations/asset backed securities (CDO/ABS), corporate debt, certain municipal and sovereign debt, certain derivative contracts (including Capital Markets 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. These methodologies are applied to assets and liabilities across the levels noted above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

Valuation Methodologies

Incorporation of Credit Risk in Fair Value Measurements

AIG's Own Credit Risk. Fair value measurements for certain Direct Investment business debt, GIAs, structured note liabilities and freestanding derivatives, as well as Capital Markets 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 derivative counterparty's net credit exposure to AIG is determined based on master netting agreements, when applicable, which take into consideration all derivative positions with AIG, as well as cash 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 will be 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 cash 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 periodic 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 upfront and/or periodic 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

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

Management is responsible for the determination of the value of the investments carried at fair value and the supporting methodologies and assumptions. AIG employs independent third-party valuation service providers to gather, analyze, and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When AIG's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, benchmark yields, interest rate yield curves, credit spreads, currency rates, quoted prices for similar securities and other market-observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued, including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other security or issuer-specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

AIG has processes designed to ensure that the values received or internally estimated are accurately recorded, that the data inputs and the valuation techniques utilized are appropriate and consistently applied and that the assumptions are reasonable and consistent with the objective of determining fair value. AIG assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, AIG may validate the reasonableness of fair values by comparing information obtained from AIG's valuation service providers to other third-party valuation sources for selected securities. AIG also

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validates prices for selected securities obtained from brokers through reviews by members of management who have relevant expertise and who are independent of those charged with executing investing transactions.

The methodology above is relevant for all fixed maturity securities; following are discussions of certain procedures unique to specific classes of securities.

Fixed Maturity Securities issued by Government Entities

For most debt securities issued by government entities, AIG obtains fair value information from independent third-party valuation service providers, as quoted prices in active markets are generally only available for limited debt securities issued by government entities. The fair values received from these valuation service providers may be based on a market approach using matrix pricing, which considers a security's relationship to other securities for which quoted prices in an active market may be available, or alternatively based on an income approach, which uses valuation techniques to convert future cash flows to a single present value amount.

Fixed Maturity Securities issued by Corporate Entities

For most debt securities issued by corporate entities, AIG obtains fair value information from third-party valuation service providers. For certain corporate debt securities, AIG obtains fair value information from brokers. For those corporate debt 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.

RMBS, CMBS, CDOs and other ABS

Third-party valuation service providers also provide fair value information for the majority of AIG investments in RMBS, CMBS, CDOs and other ABS. Where pricing is not available from valuation service providers, AIG obtains fair value information from brokers. Broker prices may be based on an income approach, which converts expected future cash flows to a single present value amount, with specific consideration of inputs relevant to structured securities, including ratings, collateral types, geographic concentrations, underlying loan vintages, loan delinquencies, and weighted average coupons and maturities. Broker prices may also be based on a market approach that considers recent transactions involving identical or similar securities. When the volume or level of market activity for an investment in RMBS, CMBS, CDOs or other ABS is limited, certain inputs used to determine fair value may not be observable in the market.

Maiden Lane II and Maiden Lane III

At their inception, AIG's interests in 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 have been valued using a discounted cash flow methodology that uses the estimated future cash flows of the Maiden Lane assets to which the Maiden Lane Interests are entitled and the discount rates applicable to such Interests as derived by the model from the fair value of the entire asset pool. These implicit discount rates are calibrated to the changes in the estimated asset values of the underlying assets commensurate with AIG's Interests in the capital structure of the respective entities and the timing of estimated cash flows. 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 since inception for the Maiden Lane Interests had assumed that the underlying collateral would continue to be held and generate cash flows into the foreseeable future and did not assume a current liquidation of the assets underlying the Maiden Lane Interests. As a result of the announcement on March 31, 2011 by the FRBNY of its plan to begin selling the assets in the ML II portfolio over time through a competitive sales process, AIG modified its methodology for estimating the fair value of its interest in ML II as of March 31, 2011 to incorporate the assumption of a current liquidation. The impact of this change in methodology was an increase in fair value of $95 million as of March 31, 2011. AIG does not believe a change in

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the fair value methodology used for its interest in ML III is appropriate at this time based on current available information. Other methodologies employed or assumptions made in 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 in the Consolidated Statement of Income (Loss) in Net investment income for SunAmerica's domestic life insurance companies. Adjustments to the fair value of AIG's interest in ML III are recorded in the Consolidated Statement of Income (Loss) in Net investment income for AIG's Other operations.

As of March 31, 2011, AIG expects to receive cash flows (undiscounted) in excess of AIG's initial investment, and any accrued interest, on the Maiden Lane Interests after repayment of the first priority obligations owed to the FRBNY. AIG's fair value methodology considers the capital structure of the collateral securities and their expected credit losses from the underlying asset pools. The fair value of AIG's interest in ML II is most affected by the liquidation proceeds realized by the FRBNY from the sale of the collateral securities. A 10 percent change in the liquidation proceeds realized by the FRBNY would result in a change of approximately $280 million in the fair value of the ML II interest. The fair value of AIG's interest in ML III is most affected by changes in the discount rates and changes in the estimated future collateral cash flows used in the valuation model. Changes in estimated future cash flows for ML III would primarily be the result of changes in expectations of defaults, recoveries and prepayments on underlying loans.

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 the discount rate or the estimated future cash flows used in the valuation would alter AIG's estimate of the fair value of AIG's interest in ML III as shown in the table below.

Three Months Ended March 31, 2011 *(in millions)*		**Maiden Lane III Fair Value Change**
Discount Rates:		
200 basis point increase	$	(751)
200 basis point decrease		865
400 basis point increase		(1,408)
400 basis point decrease		1,866
Estimated Future Cash Flows:		
10% increase		850
10% decrease		(868)
20% increase		1,686
20% decrease		(1,750)

If the FRBNY were to similarly announce a plan to liquidate the assets of ML III at their estimated fair values, the impact of the change in AIG's assumptions would be an increase in the fair value of AIG's interest in ML III by approximately $370 million at March 31, 2011.

AIG believes that the ranges of discount rates used in these analyses are reasonable on the basis of implied spread volatilities of similar collateral securities and implied volatilities of LIBOR interest rates. The ranges of estimated future cash flows were determined on the basis of 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 amounts estimated.

American International Group, Inc. and Subsidiaries

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Equity Securities Traded in Active Markets Trading and Available for Sale

Whenever available, AIG obtains quoted prices in active markets for identical assets at the balance sheet date to measure at fair value marketable equity securities in its trading and available for sale portfolios or in Other invested assets. 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 direct private equity investments by reference to the transaction price. This valuation is adjusted for changes in inputs and assumptions that 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 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.

Other Assets Measured at Fair Value

Short-term Investments For short-term investments that are measured at fair value, AIG obtains fair value information from independent third-party valuation service providers. The determination of fair value for these instruments is consistent with the process for fixed maturity securities, as discussed above.

AIG also reports securities purchased under agreements to resell in Short-term investments in the Consolidated Balance Sheet. AIG estimates the fair value of receivables arising from securities purchased under agreements to resell using dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors.

Loans Receivable AIG estimates the fair value of mortgage and other loans receivable by using dealer quotations, discounted cash flow analyses and/or internal valuation models. The determination of fair value considers inputs such as interest rate, maturity, the borrower's creditworthiness, collateral, subordination, guarantees, past-due status, yield curves, credit curves, prepayment rates, market pricing for comparable loans and other relevant factors.

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Freestanding Derivatives

Derivative assets and liabilities can be exchange-traded or traded over-the-counter (OTC). AIG generally values exchange-traded derivatives such as futures and options 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 may provide 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. AIG will update valuation inputs in these models only when corroborated by evidence such as similar market 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.

Fair value measurements for embedded derivatives associated with variable annuity and equity-indexed annuity and life contracts incorporate AIG insurance subsidiaries' own risk of non-performance by reflecting a market participant's view of AIG insurance subsidiaries' claims paying ability. AIG therefore incorporates an additional spread to the interest rate swap curve to value the embedded policy derivatives.

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AIGFP's Super Senior Credit Default Swap Portfolio

AIGFP values AIGFP's 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 certain structured finance markets. 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.

AIG'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, AIG 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. AIG 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 capital regulations promulgated by the Basel Committee on Banking Supervision, known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties and thus may impact the period of time that such counterparties are expected to hold the positions. In assessing the fair value of the regulatory capital CDS transactions, AIG also considers other market data to the extent relevant and available. For further discussion, see Note 10 herein.

Multi-sector CDO portfolios: AIG uses a modified version of the Binomial Expansion Technique (BET) model to value AIGFP's credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of ABS. 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.

AIG 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.

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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 58.9 percent of the underlying securities used in the valuation at March 31, 2011. When a price for an individual security is not provided by a CDO collateral manager, AIG 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. AIG 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, AIG 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, AIG uses a consistent process that 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.

Corporate debt/Collateralized loan obligation (CLO) portfolios: In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIG 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 two percent of the total notional amount of the corporate debt transactions, is valued using third party quotes given its unique attributes.

AIG 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).

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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. 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 and hybrid financial instruments (where performance is linked to structured 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.

Other Liabilities

Other liabilities measured at fair value include securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased. AIG estimates the fair value of liabilities arising from securities sold under agreements to repurchase under dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors. 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.

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American International Group, Inc. and Subsidiaries

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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:

March 31, 2011 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting**[a]	**Cash Collateral**[b]	**Total**
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 122	$ 6,770	$ -	$ -	$ -	$ 6,892
Obligations of states, municipalities and Political subdivisions	-	43,129	702	-	-	43,831
Non-U.S. governments	963	15,248	5	-	-	16,216
Corporate debt	-	129,991	1,235	-	-	131,226
RMBS	-	19,077	6,868	-	-	25,945
CMBS	-	3,241	4,316	-	-	7,557
CDO/ABS	-	2,791	3,857	-	-	6,648
Total bonds available for sale	1,085	220,247	16,983	-	-	238,315
Bond trading securities:						
U.S. government and government sponsored entities	58	6,655	-	-	-	6,713
Obligations of states, municipalities and Political subdivisions	-	295	-	-	-	295
Non-U.S. governments	-	171	-	-	-	171
Corporate debt	-	995	18	-	-	1,013
RMBS	-	1,679	99	-	-	1,778
CMBS	-	1,615	523	-	-	2,138
CDO/ABS	-	4,740	10,461	-	-	15,201
Total bond trading securities	58	16,150	11,101	-	-	27,309
Equity securities available for sale:						
Common stock	3,535	6	63	-	-	3,604
Preferred stock	-	59	63	-	-	122
Mutual funds	74	73	-	-	-	147
Total equity securities available for sale	3,609	138	126	-	-	3,873
Equity securities trading	45	117	1	-	-	163
Mortgage and other loans receivable	-	138	-	-	-	138
Other invested assets[c]	12,914	1,745	7,070	-	-	21,729
Derivative assets:						
Interest rate contracts	-	9,044	1,021	-	-	10,065
Foreign exchange contracts	-	117	16	-	-	133
Equity contracts	66	176	65	-	-	307
Commodity contracts	-	50	15	-	-	65
Credit contracts	-	2	384	-	-	386
Other contracts	7	705	194	-	-	906
Counterparty netting and cash collateral	-	-	-	(3,841)	(3,024)	(6,865)

Total derivative assets	73	10,094	1,695	(3,841)	(3,024)	4,997
Short-term investments[(d)]	3,123	14,553	-	-	-	17,676
Separate account assets	53,575	2,895	-	-	-	56,470
Other assets	-	8	-	-	-	8
Total	$ 74,482	$ 266,085	$ 36,976	$ (3,841)	$ (3,024)	$ 370,678
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 369	$ -	$ -	$ 369
Derivative liabilities:						
Interest rate contracts	-	6,295	402	-	-	6,697
Foreign exchange contracts	-	244	-	-	-	244
Equity contracts	1	271	31	-	-	303
Commodity contracts	-	46	-	-	-	46
Credit contracts[(e)]	-	3	3,804	-	-	3,807
Other contracts	-	80	200	-	-	280
Counterparty netting and cash collateral	-	-	-	(3,841)	(2,036)	(5,877)
Total derivative liabilities	1	6,939	4,437	(3,841)	(2,036)	5,500
Other long-term debt	-	10,608	996	-	-	11,604
Other liabilities[(f)]	77	1,277	-	-	-	1,354
Total	$ 78	$ 18,824	$ 5,802	$ (3,841)	$ (2,036)	$ 18,827

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December 31, 2010 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting**[(a)]	**Cash Collateral**[(b)]	**Total**
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 142	$ 7,208	$ -	$ -	$ -	$ 7,350
Obligations of states, municipalities and Political subdivisions	4	46,007	609	-	-	46,620
Non-U.S. governments	719	14,620	5	-	-	15,344
Corporate debt	8	124,088	2,262	-	-	126,358
RMBS	-	13,441	6,367	-	-	19,808
CMBS	-	2,807	3,604	-	-	6,411
CDO/ABS	-	2,170	4,241	-	-	6,411
Total bonds available for sale	873	210,341	17,088	-	-	228,302
Bond trading securities:						
U.S. government and government sponsored entities	339	6,563	-	-	-	6,902
Obligations of states, municipalities and Political subdivisions	-	316	-	-	-	316
Non-U.S. governments	-	125	-	-	-	125
Corporate debt	-	912	-	-	-	912
RMBS	-	1,837	91	-	-	1,928
CMBS	-	1,572	506	-	-	2,078
CDO/ABS	-	4,490	9,431	-	-	13,921
Total bond trading securities	339	15,815	10,028	-	-	26,182
Equity securities available for sale:						
Common stock	3,577	61	61	-	-	3,699
Preferred stock	-	423	64	-	-	487
Mutual funds	316	79	-	-	-	395
Total equity securities available for sale	3,893	563	125	-	-	4,581
Equity securities trading	6,545	106	1	-	-	6,652
Mortgage and other loans receivable	-	143	-	-	-	143
Other invested assets[(c)]	12,281	1,661	7,414	-	-	21,356
Derivative assets:						
Interest rate contracts	1	13,146	1,057	-	-	14,204
Foreign exchange contracts	14	172	16	-	-	202
Equity contracts	61	233	65	-	-	359
Commodity contracts	-	69	23	-	-	92
Credit contracts	-	2	377	-	-	379
Other contracts	8	923	144	-	-	1,075
Counterparty netting and cash collateral	-	-	-	(6,298)	(4,096)	(10,394)
Total derivative assets	84	14,545	1,682	(6,298)	(4,096)	5,917
Short-term investments[(d)]	5,401	18,459	-	-	-	23,860
Separate account assets	51,607	2,825	-	-	-	54,432
Other assets	-	14	-	-	-	14

Total	$ 81,023	$ 264,472	$ 36,338	$ (6,298)	$ (4,096)	$ 371,439
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 445	$ -	$ -	$ 445
Derivative liabilities:						
Interest rate contracts	-	9,387	325	-	-	9,712
Foreign exchange contracts	14	324	-	-	-	338
Equity contracts	-	286	43	-	-	329
Commodity contracts	-	68	-	-	-	68
Credit contracts[(e)]	-	5	4,175	-	-	4,180
Other contracts	-	52	256	-	-	308
Counterparty netting and cash collateral	-	-	-	(6,298)	(2,902)	(9,200)
Total derivative liabilities	14	10,122	4,799	(6,298)	(2,902)	5,735
Other long-term debt	-	11,161	982	-	-	12,143
Other liabilities[(f)]	391	2,228	-	-	-	2,619
Total	$ 405	$ 23,511	$ 6,226	$ (6,298)	$ (2,902)	$ 20,942

(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 $1.9 billion and $124 million, respectively, at March 31, 2011 and $1.4 billion and $109 million, respectively, at December 31, 2010.

(c)
Included in Level 1 are $12.2 billion and $11.1 billion at March 31, 2011 and December 31, 2010, respectively, of AIA shares publicly traded on the Hong Kong Stock Exchange. Approximately 4 percent and 5 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, 2011 and December 31, 2010, respectively. AIG's ownership in these funds represented 62.4 percent, or $0.9 billion, of Level 3 assets at March 31, 2011 and 68.6 percent, or $1.3 billion, of Level 3 assets at December 31, 2010.

(d)
Included in Level 2 is the fair value of $0.8 billion and $1.6 billion at March 31, 2011 and December 31, 2010, respectively, of securities purchased under agreements to resell.

(e)
Included in Level 3 is the fair value derivative liability of $3.2 billion and $3.7 billion at March 31, 2011 and December 31, 2010, respectively, on the Capital Markets super senior credit default swap portfolio.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(f) *Included in Level 2 is the fair value of $1.2 billion, $95 million and $10 million at March 31, 2011 of securities sold under agreements to repurchase, securities and spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, respectively. Included in Level 2 is the fair value of $2.1 billion, $94 million and $15 million at December 31, 2010 of securities sold under agreements to repurchase, securities and spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, respectively.*

Transfers of Level 1 and Level 2 Assets and Liabilities

AIG's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. During the three-month period ended March 31, 2011, AIG transferred certain assets from Level 1 to Level 2, including approximately $121 million of investments in securities issued by foreign governments. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. AIG had no significant transfers from Level 2 to Level 1 during the three-month period ended March 31, 2011.

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-month periods ended March 31, 2011 and 2010 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 in the Consolidated Balance Sheet at March 31, 2011 and 2010:

(in millions)	Fair Value Beginning of Year[(b)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements, Net	Gross Transfers In	Gross Transfers Out	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended March 31, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 609	$ -	$ 4	$ 112	$ -	$ (23)	$ 702	$ -
Non-U.S. governments	5	-	-	-	-	-	5	-
Corporate debt	2,262	(3)	7	(33)	226	(1,224)	1,235	-
RMBS	6,367	(81)	533	38	11	-	6,868	-
CMBS	3,604	(27)	664	72	25	(22)	4,316	-
CDO/ABS	4,241	20	238	(455)	72	(259)	3,857	-
Total bonds available for sale	17,088	(91)	1,446	(266)	334	(1,528)	16,983	-

Bond trading securities:								
Corporate debt	**-**	**-**	**-**	**-**	**18**	**-**	**18**	**-**
RMBS	**91**	**2**	**-**	**6**	**-**	**-**	**99**	**2**
CMBS	**506**	**38**	**-**	**(58)**	**81**	**(44)**	**523**	**39**
CDO/ABS	**9,431**	**1,030**	**5**	**(5)**	**-**	**-**	**10,461**	**1,027** *(a)*
Total bond trading securities	**10,028**	**1,070**	**5**	**(57)**	**99**	**(44)**	**11,101**	**1,068**
Equity securities available for sale:								
Common stock	**61**	**15**	**(2)**	**(15)**	**6**	**(2)**	**63**	**-**
Preferred stock	**64**	**(2)**	**-**	**1**	**-**	**-**	**63**	**-**
Total equity securities available for sale	**125**	**13**	**(2)**	**(14)**	**6**	**(2)**	**126**	**-**
Equity securities trading	**1**	**-**	**-**	**-**	**-**	**-**	**1**	**-**
Other invested assets	**7,414**	**53**	**343**	**(350)**	**-**	**(390)**	**7,070**	**(192)**
Total	**$ 34,656**	**$ 1,045**	**$ 1,792**	**$ (687)**	**$ 439**	**$ (1,964)**	**$ 35,281**	**$ 876**
Liabilities:								
Policyholder contract deposits	**$ (445)**	**$ 79**	**$ -**	**$ (3)**	**$ -**	**$ -**	**$ (369)**	**$ (93)**
Derivative liabilities, net:								
Interest rate contracts	**732**	**(116)**	**-**	**3**	**-**	**-**	**619**	**(25)**
Foreign exchange contracts	**16**	**-**	**-**	**-**	**-**	**-**	**16**	**-**
Equity contracts	**22**	**(7)**	**-**	**38**	**-**	**(19)**	**34**	**(7)**
Commodity contracts	**23**	**3**	**-**	**(11)**	**-**	**-**	**15**	**2**
Credit contracts	**(3,798)**	**382**	**-**	**(4)**	**-**	**-**	**(3,420)**	**381**
Other contracts	**(112)**	**4**	**25**	**50**	**-**	**27**	**(6)**	**(70)**
Total derivative liabilities, net	**(3,117)**	**266**	**25**	**76**	**-**	**8**	**(2,742)**	**281**
Other long-term debt	**(982)**	**(54)**	**-**	**61**	**(21)**	**-**	**(996)**	**(42)**
Total	**$ (4,544)**	**$ 291**	**$ 25**	**$ 134**	**$ (21)**	**$ 8**	**$ (4,107)**	**$ 146**

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(in millions)	Fair Value Beginning of Year[(b)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income	Purchases, Sales, Issuances and Settlements, Net	Net Transfers	Activity of Discontinued Operations	Fair Value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended March 31, 2010								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 613	$ (14)	$ (7)	$ 109	$ 248	$ (1)	$ 948	$ -
Non-U.S. governments	753	-	-	-	-	(748)	5	-
Corporate debt	4,791	(19)	86	(109)	(535)	(297)	3,917	-
RMBS	6,654	(119)	442	(142)	31	(34)	6,832	-
CMBS	4,939	(318)	638	(91)	452	(1,224)	4,396	-
CDO/ABS	4,724	21	256	(12)	31	(444)	4,576	-
Total bonds available for sale	22,474	(449)	1,415	(245)	227	(2,748)	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	(5)	2	-	-	(111)	7	(5)
RMBS	4	1	-	-	-	-	5	1
CMBS	325	40	-	(7)	34	(98)	294	101
CDO/ABS	6,865	1,117	-	(87)	-	-	7,895	1,300*(a)*
Total bond trading securities	7,387	1,153	2	(144)	36	(231)	8,203	1,397
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	-
Equity securities trading	8	-	-	-	-	(7)	1	-
Other invested assets	6,910	(128)	287	(929)	(98)	(189)	5,853	(26)
Other assets	270	-	-	(270)	-	-	-	-
Separate account assets	1	-	-	-	-	(1)	-	-
Total	$ 37,145	$ 569	$ 1,711	$ (1,587)	$ 166	$ (3,185)	$ 34,819	$ 1,371
Liabilities:								
Policyholder contract deposits	$ (5,214)	$ 196	$ -	$ (139)	$ -	$ 4,516	$ (641)	$ (185)
Derivative liabilities, net:								
Interest rate contracts	(1,469)	98	-	96	(11)	-	(1,286)	(167)
Foreign exchange contracts	29	(1)	(1)	-	-	2	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)	-	8	(130)	(3)
Total derivatives liabilities, net	(6,065)	290	(1)	(436)	(20)	10	(6,222)	(10)
Other long-term debt	(881)	(135)	-	555	(662)	-	(1,123)	136
Total	$ (12,160)	$ 351	$ (1)	$ (20)	$ (682)	$ 4,526	$ (7,986)	$ (59)

(a) *In 2011, AIG made revisions to the presentation to include income from ML III. The prior period has been revised to conform to the current period presentation.*

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

(in millions)	Net Investment Income	Net Realized Capital Gains (Losses)	Other Income	Policyholder Benefits and Claims Incurred	Total
Three Months Ended March 31, 2011					
Bonds available for sale	**$ 81**	**$ (176)**	**$ 4**	**$ -**	**$ (91)**
Bond trading securities	**1,001**	**-**	**69**	**-**	**1,070**
Equity securities available for sale	**-**	**13**	**-**	**-**	**13**
Other invested assets	**46**	**(15)**	**22**	**-**	**53**
Policyholder contract deposits	**-**	**79**	**-**	**-**	**79**
Derivative liabilities, net	**-**	**(54)**	**320**	**-**	**266**
Other long-term debt	**-**	**-**	**(54)**	**-**	**(54)**
Three Months Ended March 31, 2010					
Bonds available for sale	$ 67	$ (524)	$ 8	$ -	$ (449)
Bond trading securities	897	-	256	-	1,153
Equity securities available for sale	-	(7)	-	-	(7)
Other invested assets	56	(198)	14	-	(128)
Policyholder contract deposits	-	133	-	63	196
Derivative liabilities, net	-	-	290	-	290
Other long-term debt	-	-	(135)	-	(135)

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The following table presents the gross components of purchases, sales, issuances and settlements, net, shown above:

Three Months Ended March 31, 2011 *(in millions)*	**Purchases**	**Sales**	**Settlements**	**Purchases, Sales, Issuances and Settlements, Net***
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 113	$ -	$ (1)	$ 112
Corporate debt	8	(19)	(22)	(33)
RMBS	317	(13)	(266)	38
CMBS	142	-	(70)	72
CDO/ABS	65	-	(520)	(455)
Total bonds available for sale	645	(32)	(879)	(266)
Bond trading securities:				
RMBS	-	-	6	6
CMBS	-	(5)	(53)	(58)
CDO/ABS	3	-	(8)	(5)
Total bond trading securities	3	(5)	(55)	(57)
Equity securities available for sale:				
Common stock	-	(15)	-	(15)
Preferred stock	-	-	1	1
Total equity securities available for sale	-	(15)	1	(14)
Other invested assets	114	(12)	(452)	(350)
Total assets	$ 762	$ (64)	$ (1,385)	$ (687)
Liabilities:				
Policyholder contract deposits	$ -	$ (9)	$ 6	$ (3)
Derivative liabilities, net:				
Interest rate contracts	-	-	3	3
Equity contracts	39	-	(1)	38
Commodity contracts	-	-	(11)	(11)
Credit contracts	-	-	(4)	(4)
Other contracts	-	-	50	50
Total derivative liabilities, net	39	-	37	76
Other long-term debt	-	-	61	61
Total liabilities	$ 39	$ (9)	$ 104	$ 134

*
There were no issuances during the three months ended March 31, 2011.

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, 2011 and 2010 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.

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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.

AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above excludes $26 million of net losses related to assets and liabilities transferred into Level 3 during the three-month period ended March 31, 2011, and includes $5 million of net gains related to assets and liabilities transferred out of Level 3 during the three-month period ended March 31, 2011.

Transfers of Level 3 Assets

During the three-month period ended March 31, 2011, transfers into Level 3 included certain CMBS and ABS, as well as private placement corporate debt. The transfers into Level 3 related to investments in certain CMBS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. Transfers into Level 3 for private placement corporate debt and certain ABS were primarily the result of AIG adjusting matrix pricing information downward to better reflect the additional risk premium associated with those securities that AIG believes was not captured in the matrix.

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. In addition, transfers out of Level 3 arise when investments are no longer carried at fair value as the result of a change in the applicable accounting methodology, given changes in the nature and extent of AIG's ownership interest. During the three-month period ended March 31, 2011, transfers out of Level 3 primarily related to investments in private placement corporate debt, investments in certain CMBS and ABS and certain investment partnerships. 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 CMBS investments were primarily due to increased observations of market transactions and price information for those securities. Certain investment partnerships were transferred out of Level 3 due to these investments no longer being carried at fair value, based on AIG's use of the equity method of accounting consistent with the changes to AIG's ownership and ability to exercise significant influence over the respective investments.

Transfers of Level 3 Liabilities

During the three-month period ended March 31, 2011, there were no significant transfers into or out of Level 3 liabilities.

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

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Investments in certain entities carried at fair value using net asset value per share

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

		March 31, 2011		December 31, 2010	
(in millions)	Investment Category Includes	Fair Value Using Net Asset Value	Unfunded Commitments	Fair Value Using Net Asset Value	Unfunded Commitments
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 3,315**	**$ 1,038**	$ 3,137	$ 1,151
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	**189**	**67**	172	67
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	**318**	**35**	325	42
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	**240**	**73**	258	67
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies	**308**	**129**	373	147
Total private equity funds		**4,370**	**1,342**	4,265	1,474
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**948**	**2**	1,310	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**825**	**-**	1,038	-
Relative value	Funds that seek to benefit from market inefficiencies and value discrepancies between related investments	**95**	**-**	230	-
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	**330**	**10**	369	20
Other	Non-U.S. companies, futures and commodities, macro and multi-strategy and industry-focused strategies	**766**	**-**	708	-
Total hedge funds		**2,964**	**12**	3,655	22
Total		$ **7,334***	$ **1,354**	$ 7,920*	$ 1,496

* *Includes investments of entities classified as held for sale of $6 million and $415 million at March 31, 2011 and December 31, 2010, respectively.*

At March 31, 2011, 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, 37 percent of the total above had expected remaining lives of less than three years, 53 percent between three and seven years and 10 percent between seven and 10 years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

At March 31, 2011, hedge fund investments included above are redeemable monthly (14 percent), quarterly (51 percent), semi-annually (5 percent) and annually (30 percent), with redemption notices ranging from 1 day to 180 days. More than 83 percent require redemption notices of less than 90 days. Investments representing approximately 57 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions were put in place in 2008 and do not have stated end dates. The remaining restrictions, which have pre-defined end dates, are generally expected to be lifted by the end of 2012. The partial restrictions relate to certain hedge funds that hold

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at least one investment that the fund manager deems to be illiquid. In order to treat investors fairly and to accommodate subsequent subscription and redemption requests, the fund manager isolates these illiquid assets from the rest of the fund until the assets become liquid.

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 above in Valuation Methodologies Direct Private Equity Investments Other Invested Assets and Valuation Methodologies Hedge Funds, Private Equity Funds and Other Investment Partnerships 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 that 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 income approach based on the present value of all cash flows from existing contractual and projected lease payments (based on historical experience and current expectations regarding market participants), including net contingent rentals where appropriate, for the period extending to the end of the aircraft's economic life in its highest and best use configuration, plus its disposition value based on expectations of a market participant.

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.

Goodwill: AIG tests goodwill for impairment annually or more frequently whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable. When AIG determines that 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 that 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.

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

See Notes 2(d), (f), (g) and (h) to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for additional information about how AIG tests various asset classes for impairment.

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

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended March 31,	
(in millions)	Level 1	Level 2	Level 3	Total	2011	2010
March 31, 2011						
Investment real estate	**$ -**	**$ -**	**$ 628**	**$ 628**	**$ 12**	$ 284
Other investments	**-**	**3**	**2,078**	**2,081**	**106**	52
Aircraft	**-**	**-**	**122**	**122**	**114**	347
Other assets	**-**	**-**	**-**	**-**	**-**	7
Total	**$ -**	**$ 3**	**$ 2,828**	**$ 2,831**	**$ 232**	$ 690
December 31, 2010						
Investment real estate	$ -	$ -	$ 1,588	$ 1,588		
Other investments	-	4	2,388	2,392		
Aircraft	-	-	4,224	4,224		
Other assets	-	-	2	2		
Total	$ -	$ 4	$ 8,202	$ 8,206		

Fair Value Option

Under the fair value option, AIG may elect to measure at fair value financial assets and financial liabilities that are not otherwise required to be carried at fair value. Subsequent changes in fair value for designated items are reported in earnings.

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

	Gain (Loss) Three Months Ended March 31,	
(in millions)	2011	2010
Assets:		
Mortgage and other loans receivable	**$ (5)**	$ 40
Trading securities	**902**	1,437
Trading Maiden Lane II	**251**	160
Trading Maiden Lane III	**744**	751
Retained interest in AIA	**1,062**	-
Other invested assets	**2**	(10)
Short-term investments	**14**	(4)

Liabilities:				
Policyholder contract deposits		**-**		44
Debt		**17**		(485)
Other liabilities		**(112)**		34
Total gain*	**$**	**2,875**	$	1,967

*

Excludes discontinued operations gains or losses on instruments that are required to be carried at fair value. For instruments required to be carried at fair value, AIG recognized gains of $1.0 billion and losses of $8 million for the three months ended March 31, 2011 and 2010, 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 $323 million and $119 million for the three months ended March 31, 2011 and 2010, respectively, related to Capital Markets 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 Direct Investment business-related activity, interest, dividend

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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). Gains and losses on AIG's Maiden Lane interests are recorded in Net investment income. See Note 2(a) to the Consolidated Financial Statements in AIG's 2010 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, 2011 and 2010, AIG recognized losses of $11 million and $378 million, 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 cash collateral posted.

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

	March 31, 2011			December 31, 2010		
(in millions)	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
Assets:						
Mortgage and other loans receivable	**$ 138**	**$ 187**	**$ (49)**	$ 143	$ 203	$ (60)
Liabilities:						
Long-term debt	**$ 10,259**	**$ 8,655**	**$ 1,604**	$ 10,778	$ 8,977	$ 1,801

At March 31, 2011 and December 31, 2010, 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 that 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 that 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.

Other Invested Assets: The majority of Other invested assets that are not measured at fair value represent investments in hedge funds, private equity funds and other investment partnerships for which AIG uses the equity method of accounting. The carrying value of AIG's investment in these funds is measured based on AIG's share of the funds' reported net asset value.

Cash and short-term investments: The carrying values of these assets 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 rate (if available) or current risk-free interest rate consistent with the currency in which the cash flows are denominated.

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 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.

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The following table presents the carrying value and estimated fair value of AIG's financial instruments not measured at fair value:

	March 31, 2011		December 31, 2010	
(in millions)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Assets:				
Mortgage and other loans receivable	**$ 19,553**	**$ 19,956**	$ 20,094	$ 20,285
Other invested assets*	**19,819**	**19,448**	19,472	18,864
Short-term investments	**21,196**	**21,196**	19,878	19,878
Cash	**1,801**	**1,801**	1,558	1,558
Liabilities:				
Policyholder contract deposits associated with investment-type contracts	**103,691**	**113,360**	102,585	112,710
Long-term debt (including Federal Reserve Bank of New York credit facility)	**70,562**	**71,059**	94,318	93,745

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

7. Investments

Securities Available for Sale

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(a)]
March 31, 2011					
Bonds available for sale:					
U.S. government and government sponsored entities	**$ 6,822**	**$ 153**	**$ (83)**	**$ 6,892**	**$ -**
Obligations of states, municipalities and political subdivisions	**42,676**	**1,545**	**(390)**	**43,831**	**(31)**
Non-U.S. governments	**15,821**	**486**	**(91)**	**16,216**	**-**
Corporate debt	**123,810**	**8,563**	**(1,147)**	**131,226**	**13**
Mortgage-backed, asset-backed and collateralized:					
RMBS	**26,087**	**874**	**(1,016)**	**25,945**	**(251)**

CMBS		**7,755**		**408**		**(606)**		**7,557**		**92**
CDO/ABS		**6,618**		**470**		**(440)**		**6,648**		**117**
Total mortgage-backed, asset-backed and collateralized		**40,460**		**1,752**		**(2,062)**		**40,150**		**(42)**
Total bonds available for sale[(b)]		**229,589**		**12,499**		**(3,773)**		**238,315**		**(60)**
Equity securities available for sale:										
Common stock		**1,722**		**1,910**		**(28)**		**3,604**		**-**
Preferred stock		**93**		**29**		**-**		**122**		**-**
Mutual funds		**118**		**30**		**(1)**		**147**		**-**
Total equity securities available for sale		**1,933**		**1,969**		**(29)**		**3,873**		**-**
Total[(c)]	**$**	**231,522**	**$**	**14,468**	**$**	**(3,802)**	**$**	**242,188**	**$**	**(60)**

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(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(a)]
December 31, 2010					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 7,239	$ 184	$ (73)	$ 7,350	$ -
Obligations of states, municipalities and political subdivisions	45,297	1,725	(402)	46,620	2
Non-U.S. governments	14,780	639	(75)	15,344	(28)
Corporate debt	118,729	8,827	(1,198)	126,358	99
Mortgage-backed, asset-backed and collateralized:					
RMBS	20,661	700	(1,553)	19,808	(648)
CMBS	7,320	240	(1,149)	6,411	(218)
CDO/ABS	6,643	402	(634)	6,411	32
Total mortgage-backed, asset-backed and collateralized	34,624	1,342	(3,336)	32,630	(834)
Total bonds available for sale[(b)]	220,669	12,717	(5,084)	228,302	(761)
Equity securities available for sale:					
Common stock	1,820	1,931	(52)	3,699	-
Preferred stock	400	88	(1)	487	-
Mutual funds	351	46	(2)	395	-
Total equity securities available for sale	2,571	2,065	(55)	4,581	-
Total[(c)]	$ 223,240	$ 14,782	$ (5,139)	$ 232,883	$ (761)

(a)

Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive loss. 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, 2011 and 2010, bonds available for sale held by AIG that were below investment grade or not rated totaled $16.2 billion and $18.6 billion, respectively.

(c)

Excludes $43.7 billion and $80.5 billion of available for sale securities at fair value from businesses held for sale at March 31, 2011 and December 31, 2010, respectively. See Note 4 herein.

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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:

	12 Months or Less		More than 12 Months		Total	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2011*						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 2,753**	**$ 83**	**$ -**	**$ -**	**$ 2,753**	**$ 83**
Obligations of states, municipalities and political subdivisions	**8,842**	**284**	**615**	**106**	**9,457**	**390**
Non-U.S. governments	**3,514**	**79**	**220**	**12**	**3,734**	**91**
Corporate debt	**22,148**	**650**	**6,340**	**497**	**28,488**	**1,147**
RMBS	**6,868**	**116**	**5,334**	**900**	**12,202**	**1,016**
CMBS	**1,292**	**97**	**2,260**	**509**	**3,552**	**606**
CDO/ABS	**831**	**41**	**2,401**	**399**	**3,232**	**440**
Total bonds available for sale	**46,248**	**1,350**	**17,170**	**2,423**	**63,418**	**3,773**
Equity securities available for sale:						
Common stock	**309**	**28**	**-**	**-**	**309**	**28**
Preferred stock	**8**	**-**	**-**	**-**	**8**	**-**
Mutual funds	**4**	**1**	**-**	**-**	**4**	**1**
Total equity securities available for sale	**321**	**29**	**-**	**-**	**321**	**29**
Total	**$ 46,569**	**$ 1,379**	**$ 17,170**	**$ 2,423**	**$ 63,739**	**$ 3,802**
December 31, 2010*						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 2,142	$ 73	$ -	$ -	$ 2,142	$ 73

Obligations of states, municipalities and political subdivisions	9,300	296	646	106	9,946	402
Non-U.S. governments	1,427	34	335	41	1,762	75
Corporate debt	18,246	579	7,343	619	25,589	1,198
RMBS	4,461	105	6,178	1,448	10,639	1,553
CMBS	462	19	3,014	1,130	3,476	1,149
CDO/ABS	996	48	2,603	586	3,599	634
Total bonds available for sale	37,034	1,154	20,119	3,930	57,153	5,084
Equity securities available for sale:						
Common stock	576	52	-	-	576	52
Preferred stock	11	1	-	-	11	1
Mutual funds	65	2	-	-	65	2
Total equity securities available for sale	652	55	-	-	652	55
Total	$ 37,686	$ 1,209	$ 20,119	$ 3,930	$ 57,805	$ 5,139

* *Excludes fixed maturity and equity securities of businesses held for sale. See Note 4 herein.*

At March 31, 2011, AIG held 7,121 and 111 of individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 2,278 of individual securities were in a continuous unrealized loss position for longer than 12 months. AIG did not recognize in earnings the unrealized losses on these fixed

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maturity securities at March 31, 2011, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Securities Available for Sale

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

	Total Fixed Maturity Available for Sale Securities		Fixed Maturity Securities in a Loss Position	
March 31, 2011 *(in millions)*	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 8,865	$ 8,959	$ 1,177	$ 1,163
Due after one year through five years	51,671	53,983	12,377	12,122
Due after five years through ten years	60,868	63,733	13,575	13,104
Due after ten years	67,725	71,490	19,014	18,043
Mortgage-backed, asset-backed and collateralized	40,460	40,150	21,048	18,986
Total	$ 229,589	$ 238,315	$ 67,191	$ 63,418

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

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

	2011		2010	
Three Months Ended March 31, *(in millions)*	**Gross Realized Gains**	**Gross Realized Losses**	**Gross Realized Gains**	**Gross Realized Losses**
Fixed maturities	**$ 188**	**$ 55**	$ 381	$ 42
Equity securities	**105**	**2**	205	7
Total	**$ 293**	**$ 57**	$ 586	$ 49

For the three-month period ended March 31, 2011, the aggregate fair value of available for sale securities sold was $11.5 billion, which resulted in net realized capital gains of $236 million.

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Trading Securities

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

	March 31, 2011		December 31, 2010	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
Fixed Maturities:				
U.S. government and government sponsored entities	$ 6,713	24%	$ 6,902	21%
Non-U.S. governments	171	1	125	1
Corporate debt	1,013	4	912	3
State, territories and political subdivisions	295	1	316	1
Mortgage-backed, asset-backed and collateralized:				
RMBS	1,778	6	1,928	6
CMBS	2,138	8	2,078	6
CDO/ABS and other collateralized	6,616	24	6,331	19
Total mortgage-backed, asset-backed and collateralized	10,532	38	10,337	31
ML II	1,530	5	1,279	4
ML III	7,055	26	6,311	19
Total fixed maturities	27,309	99	26,182	80
Equity securities:				
MetLife	-	-	6,494	20
All other	163	1	158	-
Total equity securities	163	1	6,652	20
Total	$ 27,472	100%	$ 32,834	100%

Evaluating Investments for Other-Than-Temporary Impairments

For a discussion of AIG's policy for evaluating investments for other-than-temporary impairments, see pages 276-279 of Note 7 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K.

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[(a)]:

	2011	2010

Three Months Ended March 31,
(in millions)

Balance, beginning of year	**$ 6,786**	$ 7,803
Increases due to:		
Credit impairments on new securities subject to impairment losses	**52**	137
Additional credit impairments on previously impaired securities	**150**	468
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(170)**	(387)
Credit impaired securities for which there is a current intent or anticipated requirement to sell	**-**	(2)
Accretion on securities previously impaired due to credit[(b)]	**(100)**	(95)
Hybrid securities with embedded credit derivatives reclassified to Bond trading securities	**(179)**	-
Other[(c)]	**1**	(651)
Balance, end of period	**$ 6,540**	$ 7,273

(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.*

(c) *In 2010, primarily consists of activity associated with held for sale entities.*

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8. Lending Activities

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

(in millions)	March 31, 2011	December 31, 2010
Commercial mortgages	**$ 13,432**	$ 13,571
Residential mortgages*	**8**	9
Life insurance policy loans	**3,100**	3,133
Commercial loans, other loans and notes receivable	**3,994**	4,402
Total mortgage and other loans receivable	**20,534**	21,115
Allowance for losses	**(843)**	(878)
Mortgage and other loans receivable, net	**$ 19,691**	$ 20,237

* *Primarily consists of foreign mortgage loans.*

Commercial mortgages primarily represent lending for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (26 percent and 11 percent, respectively, at March 31, 2011). Over 98 percent and 97 percent of the commercial mortgages were current as to payments of principal and interest at March 31, 2011 and December 31, 2010, respectively.

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

March 31, 2011 *(dollars in millions)*	Number of Loans	Class Apartments	Offices	Retail	Industrial	Hotel	Others	Total	Percent of Total
Credit Quality Indicator:									
In good standing	1,017	$ 1,672	$ 4,678	$ 2,190	$ 2,007	$ 925	$ 1,397	$ 12,869	96%
Restructured[(a)]	11	49	183	-	4	-	47	283	2
90 days or less delinquent	2	-	4	9	-	-	-	13	-
>90 days delinquent or in process of foreclosure	17	11	101	10	5	27	77	231	2
Total[(b)]	1,047	$ 1,732	$ 4,966	$ 2,209	$ 2,016	$ 952	$ 1,521	$ 13,396	100%
Valuation allowance		$ 71	$ 132	$ 52	$ 53	$ 31	$ 61	$ 400	3%

(a) *Performing under restructured terms, which may have included extended maturity dates and revised interest rates.*

(b) *Does not reflect valuation allowances.*

Methodology used to estimate the allowance for credit losses

For commercial mortgage loans, impaired value is based on the fair value of underlying collateral which is determined based on the expected net future cash flows of the collateral, less estimated costs to sell. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on the analysis of internal risk ratings and current loan values. Internal risk ratings are assigned based on the consideration of risk factors including debt service coverage, loan-to-value ratio or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and of the major property tenants, economic trends in the market where the property is located, and condition of the property. These factors and the resulting risk ratings also provide a basis for determining the level of monitoring performed at both the individual loan and the portfolio level. When all or a portion of a commercial mortgage loan is deemed uncollectible, the uncollectible portion of the carrying value of the loan is charged off against the allowance.

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AIG may restructure the terms of commercial real estate, mortgage and other loans receivable. Restructuring may involve extending the maturity of a loan or otherwise changing the interest rate or other terms of a loan. When the restructuring is related to financial difficulties of the borrower and the new terms are not consistent with current market terms, AIG considers the loan to be, and accounts for it as, a troubled debt restructuring.

A significant majority of commercial mortgage loans in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for AIG to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

The following table presents a rollforward of the changes in the allowance for losses on Mortgage and other loans receivable:

	2011			2010		
Three Months Ended March 31, *(in millions)*	**Commercial Mortgages**	**Other Loans**	**Total**	**Commercial Mortgages**	**Other Loans**	**Total**
Allowance, beginning of year	**$ 470**	**$ 408**	**$ 878**	$ 432	$ 2,012	$ 2,444
Loans charged off	**(29)**	**(5)**	**(34)**	(121)	(35)	(156)
Recoveries of loans previously charged off	**33**	**-**	**33**	-	8	8
Net charge-offs	**4**	**(5)**	**(1)**	(121)	(27)	(148)
Provision for loan losses	**(21)**	**18**	**(3)**	121	(2)	119
Other	**(31)**	**-**	**(31)**	(1)	103	102
Reclassified to Assets of businesses held for sale	**-**	**-**	**-**	(48)	(38)	(86)
Allowance, end of period	**$ 422***	**$ 421**	**$ 843**	$ 383	$ 2,048	$ 2,431

* *Of the total, $125 million relates to individually assessed credit losses on $660 million of commercial mortgage loans. Allowance includes $22 million for non-U.S. commercial mortgage loans.*

9. Variable Interest Entities

A variable interest entity (VIE) is a legal entity that does not have sufficient equity at risk to finance its activities without additional subordinated financial support or is structured such that equity investors lack the ability to make significant decisions relating to the entity's operations through voting rights and do not substantively participate in the gains and losses of the entity. Consolidation of a VIE by its primary beneficiary is not based on majority voting interest, but is based on other criteria discussed below.

While AIG enters into various arrangements with VIEs in the normal course of business, AIG's involvement with VIEs is primarily via its insurance companies as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs. In all instances, AIG consolidates the VIE when it determines it is the primary beneficiary. This analysis 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.

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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 $0.4 billion and $1.0 billion at March 31, 2011 and December 31, 2010, 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	
(in billions)	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010	March 31, 2011	December 31, 2010
AIA/ALICO SPVs	**$ 15.3**	$ 48.6	**$ 0.6**	$ 0.9	**$ -**	$ -
Real estate and investment funds	**2.5**	3.8	**0.9**	1.2	**0.1**	0.1
Commercial paper conduit	**0.5**	0.5	**0.2**	0.2	**-**	-
Affordable housing partnerships	**2.8**	2.9	**0.4**	0.4	**-**	-
Other	**4.6**	4.7	**2.1**	2.1	**-**	-
VIEs of businesses held for sale	**-**	0.4	**-**	-	**-**	-
Total	**$ 25.7**	$ 60.9	**$ 4.2**	$ 4.8	**$ 0.1**	$ 0.1

* *Each of the VIE's assets can be used only to settle specific obligations of that VIE.*

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:

		Maximum Exposure to Loss		
(in billions)	Total VIE Assets	On-Balance Sheet	Off-Balance Sheet	Total
March 31, 2011				
Real estate and investment funds	**$ 18.0**	**$ 2.5**	**$ 0.3**	**$ 2.8**
Affordable housing partnerships	**0.6**	**0.6**	**-**	**0.6**
Maiden Lane Interests	**41.1**	**8.6**	**-**	**8.6**
Other	**1.7**	**0.1**	**-**	**0.1**
VIEs of businesses held for sale	**0.6**	**0.6**	**-**	**0.6**

Total	**$**	**62.0**	**$**	**12.4**	**$**	**0.3**	**$**	**12.7**
December 31, 2010								
Real estate and investment funds	$	18.5	$	2.5	$	0.3	$	2.8
Affordable housing partnerships		0.6		0.6		-		0.6
Maiden Lane Interests		40.1		7.6		-		7.6
Other		1.6		0.1		0.5		0.6
VIEs of businesses held for sale		2.0		0.4		0.1		0.5
Total	$	62.8	$	11.2	$	0.9	$	12.1

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Balance Sheet Classification

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

	Consolidated VIEs		Unconsolidated VIEs	
(in billions)	**March 31, 2011**	**December 31, 2010**	**March 31, 2011**	**December 31, 2010**
Assets:				
Available for sale securities	**$ 0.3**	$ 3.3	**$ -**	$ -
Trading securities	**1.7**	8.1	**8.7**	7.7
Mortgage and other loans receivable	**0.4**	0.7	**-**	-
Other invested assets	**18.7**	18.3	**3.1**	3.1
Other asset accounts	**4.6**	30.1	**-**	0.1
Assets held for sale	**-**	0.4	**0.6**	0.3
Total	**$ 25.7**	$ 60.9	**$ 12.4**	$ 11.2
Liabilities:				
Other long-term debt	**$ 2.2**	$ 2.6	**$ -**	$ -
Other liability accounts	**2.0**	2.2	**-**	-
Total	**$ 4.2**	$ 4.8	**$ -**	$ -

See Notes 6, 7 and 11 to the Consolidated Financial Statements in AIG's 2010 Annual Report on Form 10-K for additional information on RMBS, CMBS, and other asset-backed securities.

10. Derivatives and Hedge Accounting

AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. AIGFP had also transacted in derivatives as a dealer and had acted as an intermediary between the relevant AIG subsidiary and the counterparty. In a number of situations, AIG has replaced AIGFP with AIG Markets, Inc. (AIG Markets) for purposes of acting as an intermediary between the AIG subsidiary and the third-party counterparty as part of the wind-down of AIGFP's portfolios.

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. Derivatives, with the exception of bifurcated embedded derivatives, are reflected in the Consolidated Balance Sheet in Derivative assets, at fair value and Derivative liabilities, at fair value. A bifurcated embedded derivative is recorded at fair value whereas the corresponding host contract is recorded on an amortized cost basis. A bifurcated embedded derivative is presented with the host contract in the Consolidated Balance Sheet.

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

	March 31, 2011				December 31, 2010			
	Gross Derivative Assets		Gross Derivative Liabilities		Gross Derivative Assets		Gross Derivative Liabilities	
(in millions)	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]	Notional Amount[(a)]	Fair Value[(b)]
Derivatives designated as hedging instruments:								
Interest rate contracts[(c)]	**$ 1,271**	**$ 237**	**$ 583**	**$ 47**	$ 1,471	$ 156	$ 626	$ 56
Derivatives not designated as hedging instruments:								
Interest rate contracts[(c)]	**114,443**	**9,828**	**85,282**	**6,650**	150,966	14,048	118,783	9,657
Foreign exchange contracts	**2,187**	**133**	**2,989**	**244**	2,495	203	4,105	338
Equity contracts	**4,661**	**307**	**1,347**	**303**	5,002	358	1,559	329
Commodity contracts	**932**	**65**	**762**	**46**	944	92	768	67
Credit contracts	**2,042**	**386**	**59,334**	**3,807**	2,046	379	62,715	4,180
Other contracts	**26,695**	**906**	**16,939**	**649**	27,333	1,075	16,297	753
Total derivatives not designated as hedging instruments	**150,960**	**11,625**	**166,653**	**11,699**	188,786	16,155	204,227	15,324
Total derivatives	**$ 152,231**	**$ 11,862**	**$ 167,236**	**$ 11,746**	$ 190,257	$ 16,311	$ 204,853	$ 15,380

(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 in 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. For credit contracts, notional amounts are net of all underlying subordination.*

(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 in the Consolidated Balance Sheet:

March 31, 2011	December 31, 2010

	Derivative Assets		**Derivative Liabilities**[a]		**Derivative Assets**		**Derivative Liabilities**[b]	
(in millions)	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**	**Notional Amount**	**Fair Value**
Capital Markets derivatives	**$ 130,093**	**$ 8,394**	**$ 137,346**	**$ 9,333**	$ 168,033	$ 12,268	$ 173,226	$ 12,379
All other derivatives	**22,138**	**3,468**	**29,890**	**2,413**	22,224	4,043	31,627	3,001
Total derivatives, gross	**$ 152,231**	**11,862**	**$ 167,236**	**11,746**	$ 190,257	16,311	$ 204,853	15,380
Counterparty netting[c]		**(3,841)**		**(3,841)**		(6,298)		(6,298)
Cash collateral[d]		**(3,024)**		**(2,036)**		(4,096)		(2,902)
Total derivatives, net		**4,997**		**5,869**		5,917		6,180
Less: Bifurcated embedded derivatives		**-**		**369**		-		445
Total derivatives on balance sheet		**$ 4,997**		**$ 5,500**		$ 5,917		$ 5,735

(a) *Included in All other derivatives are bifurcated embedded derivatives, which are recorded in Policyholder contract deposits.*

(b) *Included in All other derivatives are bifurcated embedded derivatives, which are recorded in Policyholder contract deposits, Bonds available for sale, at fair value, and Common and preferred stock, at fair value.*

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

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

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Hedge Accounting

AIG designated certain derivatives entered into by AIGFP and AIG Markets with third parties as either fair value or cash flow hedges of certain debt issued by AIG Parent and ILFC. 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, a qualitative methodology 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 income (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 (i) the notional amount of the hedging debt instrument matches the designated portion of the net investment and (ii) 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 months ended March 31, 2011 and 2010, AIG recognized gains (losses) of $(24) million and $48 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 in the Consolidated Statement of Income (Loss):

Three Months Ended March 31, ***(in millions)***	**2011**	**2010**
Interest rate contracts[(a)(b)]:		
Loss recognized in earnings on derivatives	**$ (7)**	$ (16)
Gain recognized in earnings on hedged items[(c)]	**48**	44
Gain (loss) recognized in earnings for ineffective portion and amount excluded from effectiveness testing	**(1)**	9

(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 $(1) million and $4 million for the three-month periods ended March 31, 2011 and 2010, respectively, related to the ineffective portion and $5 million for the three-month period ended March 31, 2010, for amounts excluded from effectiveness testing.*

(c) *Includes $42 million and $19 million for the three-month periods ended March 31, 2011 and 2010, respectively, 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 in the Consolidated Statement of Income (Loss):

Three Months Ended March 31, *(in millions)*	**2011**	**2010**
Interest rate contracts[a]:		
Gain recognized in OCI on derivatives	**$ -**	$ 38
Gain (loss) reclassified from Accumulated OCI into earnings[b]	**(18)**	19
Loss recognized in earnings on derivatives for ineffective portion	**-**	(6)

(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 income until earnings are affected by the variability of cash flows in the hedged item. At March 31, 2011, $41 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 in the Consolidated Statement of Income (Loss):

Three Months Ended March 31, *(in millions)*	**Gains (Losses) Recognized in Earnings** **2011**	**2010**
By Derivative Type:		
Interest rate contracts[a]	**$ (274)**	$ (908)
Foreign exchange contracts	**20**	272
Equity contracts	**(104)**	126
Commodity contracts	**5**	(6)
Credit contracts	**347**	144
Other contracts[b]	**(18)**	130
Total	**$ (24)**	$ (242)
By Classification:		
Premiums	**$ 25**	$ 19
Net investment income	**2**	4
Net realized capital gains (losses)	**32**	(514)
Other income	**(83)**	249

Total	**$ (24)**	$ (242)

(a) *Includes cross currency swaps.*

(b) *Includes embedded derivative gains of $107 million and $147 million, respectively, for the three months ended March 31, 2011 and March 31, 2010.*

Capital Markets Derivatives

AIGFP enters into derivative transactions to mitigate market 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 have been seeking to hedge certain aspects of such counterparties' operations or obtain a desired financial exposure.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Capital Markets 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 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 $334 million of securities to economically hedge its credit risk.

The timing and the amount of cash flows relating to Capital Markets 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.

Capital Markets 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 Capital Markets 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 tranched 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 be 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 Capital Markets super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions, by asset class:

	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss) Three Months Ended March 31,	
(in millions)	March 31, 2011[(a)]	December 31, 2010[(a)]	March 31, 2011[(b)(c)]	December 31, 2010[(b)(c)]	2011[(c)]	2010[(c)]
Regulatory Capital:						
Corporate loans	**$ 3,395**	$ 5,193	**$ -**	$ -	**$ -**	$ -
Prime residential mortgages	**30,514**	31,613	**(196)**	(190)	**6**	33
Other	**1,211**	1,263	**8**	17	**9**	6
Total	**35,120**	38,069	**(188)**	(173)	**15**	39
Arbitrage:						
Multi-sector CDOs[(d)]	**6,158**	6,689	**3,076**	3,484	**273**	158
Corporate debt/CLOs[(e)]	**12,674**	12,269	**134**	171	**37**	(7)
Total	**18,832**	18,958	**3,210**	3,655	**310**	151
Mezzanine tranches[(f)]	**2,705**	2,823	**200**	198	**(2)**	(71)
Total	**$ 56,657**	$ 59,850	**$ 3,222**	$ 3,680	**$ 323**	$ 119

(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 $6 million and $113 million in the three-month periods ended March 31, 2011 and 2010, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.*

(d) *During 2011, AIGFP liquidated one multi-sector super senior CDS transaction with a net notional amount of $188 million. The primary underlying collateral components, which consisted of individual ABS CDS transactions, were sold in an auction to counterparties, including AIGFP, at their approximate fair value at the time of the liquidation. AIGFP was the winning bidder on approximately $107 million of individual ABS CDS transactions, which are reported in written single name credit default swaps as of March 31, 2011. As a result, a $121 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. During 2011, AIGFP also paid $14 million to its counterparties with respect to multi-sector CDOs. Upon payment, a $14 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include $5.2 billion and $5.5 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2011 and December 31, 2010, respectively.*

(e)

Corporate debt/CLOs include $1.4 billion and $1.3 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2011 and December 31, 2010, respectively.

(f)

Net of offsetting purchased CDS of $1.5 billion and $1.4 billion in net notional amount at March 31, 2011 and December 31, 2010, 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, 2011 was 1.5 years for the regulatory capital corporate loan portfolio, 3.6 years for the regulatory capital prime residential mortgage portfolio, 4.5 years for the regulatory capital other portfolio, 5.9 years for the multi-sector CDO arbitrage portfolio and 4.8 years for the corporate debt/CLO portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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 certain changes to regulatory capital standards. During the three-month period ended March 31, 2011, $1.4 billion in net notional amount was terminated or matured at no cost to AIGFP.

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 tranched 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, 2011 was 15.53 percent and 20.87 percent, respectively. The highest realized losses to date in any single residential mortgage and corporate loan pool were 2.68 percent and 0.52 percent, respectively. Each of the corporate loan transactions consists 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.

The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties from these transactions and thus may impact the period of time that such counterparties are expected to hold the positions. In prior years, it had been expected that financial institution counterparties would complete a transition from Basel I to an intermediate standard known as Basel II, which could have had similar effects on the benefits of these transactions, at the end of 2009. Basel III has now superseded Basel II, but the details of its implementation by the various European Central Banking districts have not been finalized. 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. AIGFP continues to reassess the expected maturity of this portfolio. As of March 31, 2011, AIGFP estimated that the weighted average expected maturity of the portfolio was 3.40 years.

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.

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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, 2011 was written on CDO transactions (including synthetic CDOs) that generally held a concentration of RMBS, CMBS and inner CDO securities. At March 31, 2011, approximately $2.9 billion net notional amount (fair value liability of $1.6 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. As of March 31, 2011, only one transaction, with a net notional amount of $381 million, has breached its attachment point. AIGFP has paid a total of $83 million, of which $14 million was paid in the first quarter of 2011. 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 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). 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. During 2010, AIGFP terminated all 2a-7 Puts in respect of notes held by holders other than AIGFP and its affiliates. AIGFP is not a party to any commitments to issue any additional 2a-7 Puts.

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 $1.5 billion at March 31, 2011 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.

Because of 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 lack of observable data and the uncertainty regarding the potential effects on market prices of measures undertaken by the federal government to address the credit market disruption, AIGFP is unable to reasonably estimate the amounts of collateral that it may be required to post in the future.

At March 31, 2011 and December 31, 2010, the amounts of collateral postings with respect to AIGFP's super senior credit default swap portfolio (prior to offsets for other transactions) were $3.4 billion and $3.8 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 it wrote and ones it purchased. At March 31, 2011, the net notional amount of these written CDS contracts was $494 million. AIGFP has hedged these exposures by purchasing offsetting CDS contracts of $199 million in net notional amount. The net unhedged position of $295 million represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 16.68 years. At March 31, 2011, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was $77 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, 2011, AIGFP had posted $97 million of collateral under these contracts.

All Other Derivatives

AIG's non-Capital Markets businesses also use derivatives and other instruments as part of their financial risk management. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed income securities, outstanding medium- and long-term notes as well as other interest rate sensitive assets and liabilities. 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 currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, AIG also enters into 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

AIG's Matched Investment Program (MIP) operations, which are reported in AIG's Other operations category as part of Asset Management Direct Investment business, are currently in run-off. Through the MIP, AIG has

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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.

These contracts were written through AIG Markets, which then transacted directly with unaffiliated third parties under ISDA agreements. As of March 31, 2011, the notional amount of written CDS contracts was $1.4 billion with an average credit rating of BBB+. At that date, the average remaining maturity of the written CDS contracts was 1.3 years and the fair value of the derivative liability (which represents the carrying value) of the MIP's written CDS contracts was $18.8 million.

The majority of the ISDA agreements include CSA provisions, which provide for collateral postings at various ratings and threshold levels. At March 31, 2011, $1.3 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, because of 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, AIG Markets would normally have the option to settle the position on behalf of the MIP 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.

The aggregate fair value of AIG's derivative instruments, including those of AIGFP, that contain credit risk-related contingent features that were in a net liability position at March 31, 2011, was approximately $4.5 billion. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2011, was $4.8 billion.

AIG estimates that at March 31, 2011, 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 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 a negligible amount of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's Investors' Services, Inc. (Moody's) and an additional one-notch downgrade to BBB by S&P would result in approximately $300 million in additional collateral postings and termination payments and a further one-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately $200 million in additional collateral postings and termination payments. 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, 2011. 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. Management's estimates are also based on the assumption that counterparties will terminate based on their net exposure to AIG. 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.

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Hybrid Securities with Embedded Credit Derivatives

AIG invests in hybrid securities (such as credit-linked notes). Upon the issuance of credit-linked notes, the cash received by the issuer is generally used to invest in highly rated securities in addition to entering into a derivative contract that exchanges the return on its highly-rated securities for the return on a separate portfolio of assets. The investments owned by the issuer serve as collateral for the derivative instrument written by the issuer. The return on the separate portfolio received by the issuer is used to pay the return owed on the credit-linked notes. These hybrid securities expose AIG to risks similar to the risks in RMBS, CMBS, CDOs and ABS, but such risk is derived from the separate portfolio rather than from direct mortgage or loan investments owned by the issuer. As with other investments in RMBS, CMBS, CDOs and other ABS, AIG invested in these hybrid securities with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. Similar to AIG's other investments in RMBS, CMBS, CDOs and ABS, AIG's investments in these hybrid securities are exposed to losses only up to the amount of AIG's initial investment in the hybrid security, as losses on the derivative contract will be paid via the collateral held by the entity that issues the hybrid security. Losses on the embedded derivative contracts may be triggered by events such as bankruptcy, failure to pay or restructuring associated with the obligations referenced by the derivative, and these losses in turn result in the reduction of the principal amount to be repaid to AIG and other investors in the hybrid securities. Other than AIG's initial investment in the hybrid securities, AIG has no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

Effective July 1, 2010, AIG elected to account for its investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in earnings. Through June 30, 2010, these hybrid securities had been accounted for as available for sale securities, and had been subject to other than temporary impairment accounting as applicable.

AIG's investments in these hybrid securities are reported as Bond trading securities in the Consolidated Balance Sheet. The fair value of these hybrid securities was $155 million at March 31, 2011. These securities have a current par amount of $561 million and have remaining stated maturity dates that extend to 2056.

11. 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

Overview. 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. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries into, among other matters, AIG's liquidity, compensation paid to certain employees, payments made to counterparties, and certain

business practices and valuations of current and former operating insurance subsidiaries. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

AIG's Subprime Exposure, Capital Markets Credit Default Swap Portfolio and Related Matters

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to AIG's exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to AIG's securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. 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 (the 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).

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 AIG's shelf registration statements. 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, the Subprime Exposure Issues. 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 on September 27, 2010 the Court denied the motions to dismiss.

On November 24, 2010 and December 10, 2010, AIG and all other defendants filed answers to the consolidated complaint denying the material allegations therein and asserting their defenses.

On April 1, 2011, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a motion to certify a class of plaintiffs.

As of May 2, 2011, plaintiffs have not specified an amount of alleged damages, discovery has only recently commenced and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

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. 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 certain benefit plans of AIG and its subsidiaries that offered 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 certain

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matters, including the Subprime Exposure Issues. On September 18, 2009, defendants filed motions to dismiss the consolidated amended complaint.

On March 31, 2011, the Court granted defendants' motions to dismiss with respect to one plan at issue, and denied defendants' motions to dismiss with respect to the other two plans at issue.

As of May 2, 2011, plaintiffs have not specified an amount of alleged damages, discovery has not commenced, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Consolidated 2007 Derivative Litigation. On November 20, 2007 and August 6, 2008, 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 have been consolidated as In re American International Group, Inc. 2007 Derivative Litigation (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. As amended, the factual allegations include the Subprime Exposure Issues and AIG and AIGFP employee retention payments and related compensation issues. The claims asserted on behalf of nominal defendant AIG include 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 amended complaint. On December 18, 2009, a separate action, previously commenced in the United States District Court for the Central District of California (Central District of California) and transferred to the Southern District of New York on June 5, 2009, was consolidated into the Consolidated 2007 Derivative Litigation and dismissed without prejudice to the pursuit of the claims in the Consolidated 2007 Derivative Litigation.

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 17, 2011, the United States Court of Appeals for the Second Circuit (the Second Circuit) affirmed the Southern District of New York's dismissal of the Consolidated 2007 Derivative Litigation due to plaintiff's failure to make a pre-suit demand.

Other Derivative Actions. Separate purported derivative actions, alleging similar claims as the Consolidated 2007 Derivative Litigation, have been brought asserting claims on behalf of the nominal defendant AIG in various jurisdictions. These actions are described below:

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. On March 9, 2009, this action was stayed.

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. The complaint has not been served on any defendant.

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. On July 17, 2009 the case was stayed. On May 4, 2011, the parties filed a stipulation with the court agreeing to lift the stay, and granting plaintiff leave to file an amended complaint.

Delaware Court of Chancery. 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. On April 27, 2011, the Court signed a stipulation and dismissed the complaint without prejudice.

Superior Court for the State of California, Los Angeles County. On April 1, 2009 and November 20, 2009, two purported shareholder derivative complaints were filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain directors and officers of AIG and its subsidiaries. On

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February 9, 2010, the case filed on November 20, 2009 was stayed. On January 10, 2011, the case filed on April 1, 2009 was voluntarily dismissed.

Southern District of New York. On January 4, 2011, Wanda Mimms, a participant in the AIG Incentive Savings Plan (the "Plan"), filed a purported derivative action on behalf of the Plan in the United States District Court for the Southern District of New York against PricewaterhouseCoopers, LLP (PwC) and asserting a claim for professional malpractice in conducting audits of AIG's 2007 financial statements. The complaint, as amended on April 20, 2011, also asserts a claim for breach of fiduciary duty under ERISA against members of the Plan's Retirement Board for failing to pursue a claim for professional malpractice on behalf of the Plan against PwC.

As of May 2, 2011, plaintiff has not specified an amount of alleged damages and no motions to dismiss have been filed by defendants. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the 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 class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. 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 July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in another action with respect to similar issues raised in the action pending against AIG.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of $500 million, and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of May 2, 2011, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim and no discovery has occurred. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Other Litigation Related 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, 2011, the estimated present value of expected future cash flows discounted at LIBOR was $1.3 billion, which represents AIG's maximum contractual loss from the alleged termination of the contract. It is AIG's position that no termination event has occurred and that the swap agreement remains in effect. A determination that a termination event has occurred could result in AIG losing its entitlement to all future payments under the swap agreement and result in a loss to AIG of the full value at which AIG is carrying the swap agreement.

A determination that AIG triggered a "bankruptcy" event of default under the swap agreement could also, 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.

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On December 17, 2009 defendants filed a motion to dismiss. On September 28, 2010, the Court issued a decision granting defendants' motion in part and denying it in part, holding that the complaint: (i) failed to allege that an event of default had occurred based upon defendants' failure to pay or inability to pay debts as they became due; but, (ii) sufficiently alleged that an event of default had occurred based upon other sections of the swap agreement's "bankruptcy" default provision. On January 26, 2011, Brookfield filed an amended complaint that seeks to reassert, on the basis of additional factual allegations, the claims that were dismissed from the initial complaint. On February 9, 2011, AIG filed a motion to dismiss the claim that Brookfield seeks to reassert in its amended complaint.

Securities Lending Dispute with Transatlantic Holdings Inc.

On May 24, 2010, Transatlantic Holdings, Inc. (Transatlantic) and two of its subsidiaries, Transatlantic Reinsurance Company and Trans Re Zurich Reinsurance Company Ltd. (collectively, Claimants), commenced an arbitration proceeding before the American Arbitration Association in New York against AIG and two of its subsidiaries (the AIG Respondents). Claimants allege breach of contract, breach of fiduciary duty, and common law fraud in connection with certain securities lending agency agreements between AIG's subsidiaries and Claimants. Claimants allege that AIG and its subsidiaries should be liable for the losses that Claimants purport to have suffered in connection with securities lending and investment activities, and seek damages of $350 million and other unspecified damages.

On June 29, 2010, AIG brought a petition in the Supreme Court of the State of New York, seeking to enjoin the arbitration on the ground that AIG is not a party to the securities lending agency agreements with Claimants. On July 29, 2010, the parties agreed to resolve that petition by consolidating the arbitration commenced by Claimants with a separate arbitration, commenced by AIG on June 29, 2010, in which AIG is seeking damages of Euro 17.6 million ($24.9 million at the March 31, 2011 exchange rate) from Transatlantic for breach of a Master Separation Agreement among Transatlantic, AIG and one of its subsidiary companies.

On September 13, 2010, the AIG Respondents submitted an answer to Claimants' claims asserting, among other things, that there was no breach of the securities lending agency agreements, and that Claimants' other allegations including purported breach of fiduciary duty and fraud are not meritorious. Transatlantic submitted an answer denying liability with respect to AIG's claim on September 13, 2010. The arbitration hearing is scheduled for December 2011. As of May 2, 2011, because of the stage of the proceeding, and the wide difference in damages sought by the parties, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from this arbitration.

Employment Litigation against AIG and AIG Global Real Estate Investment Corporation

On December 9, 2009, AIG Global Real Estate Investment Corporation's (AIGGRE) former President, Kevin P. Fitzpatrick, several entities he controls, and various other single purpose entities (the SPEs) filed a complaint in the Supreme Court of the State of New York, New York County against AIG and AIGGRE (the Defendants). The case was removed to the Southern District of New York, and an amended complaint was filed on March 8, 2010. The amended complaint asserts that the Defendants violated fiduciary duties to Fitzpatrick and his controlled entities and breached Fitzpatrick's employment agreement and agreements of SPEs that purportedly entitled him to carried interest fees arising out of the sale or disposition of certain real estate. Fitzpatrick has also brought derivative claims on behalf of the SPEs, purporting to allege that the Defendants breached contractual and fiduciary duties in failing to fund the SPEs with various amounts allegedly due under the SPE agreements. Fitzpatrick has also requested injunctive relief, an accounting, and that a receiver be appointed to manage the affairs of the SPEs. He has further alleged that the SPEs are subject to a constructive trust. Fitzpatrick also has alleged a violation of ERISA relating to retirement benefits purportedly due. Fitzpatrick has claimed that he is currently owed damages totaling approximately $196 million, and that potential future amounts owed to him are approximately $78 million, for a total of approximately $274 million. Fitzpatrick further claims unspecified amounts of carried interest on certain additional real estate assets of AIG and its affiliates. He also seeks punitive damages for the alleged breaches of fiduciary duties. Defendants assert that Fitzpatrick has been paid all amounts

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currently due and owing pursuant to the various agreements through which he seeks recovery. As set forth above, the possible range of loss to AIG is $0 to $274 million, although Fitzpatrick claims that he is also entitled to additional unspecified amounts of carried interest and punitive damages.

Defendants filed counterclaims against Fitzpatrick and a motion to dismiss. On September 28, 2010, the Court dismissed the Defendants' counterclaims, and denied Defendants' motion to dismiss. On March 14, 2011, both plaintiffs and defendants filed motions for partial summary judgment.

ALICO Life International Limited's Italian Internal Fund Suspensions

Certain policyholders of certain unit-linked funds offered by the Italian branch of ALICO Life International Limited (ALIL), the Irish subsidiary of ALICO, have either commenced or threatened litigation against ALIL's Italian branch as a result of the suspension of withdrawals from and diminution in value of those funds since late 2008, alleging damages for misrepresentation, mis-selling, improper or inadequate disclosures and other related claims against ALIL. Most of the lawsuits remain in the early stages of litigation.

In March 2010, ALIL learned that the public prosecutor in Milan had opened a formal investigation into the actions of employees and former employees of ALIL, as well as employees of ALIL's major distributor, based on a policyholder's complaint. The policyholder's complaint underlying the investigation was withdrawn in November 2010.

On March 16, 2011, ALIL publicly announced a settlement offer to policyholders who were invested in the suspended funds at the time of suspension. Policyholders have until May 27, 2011 to accept the settlement offer. If all eligible policyholders accepted the settlement, ALIL would be required to pay up to Euro 143 million ($203 million at the March 31, 2011 exchange rate) pursuant to the settlement offer. AIG has an accrual for the estimated net cost of the settlement offer as of March 31, 2011.

Under the terms of the ALICO stock purchase agreement, pursuant to which MetLife acquired ALICO as of November 1, 2010, AIG has agreed to indemnify MetLife and its affiliates in respect of any third party claims and regulatory fines associated with ALIL's suspended funds. Such indemnities, including payments made pursuant to the settlement offer described above, will be paid from the funds held in escrow pursuant to the terms of the ALICO stock purchase agreement.

False Claims Act Complaint.

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a First Amended Complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Societe Generale. The amended complaint alleges that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility, the Maiden Lane Interests through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The complaint seeks unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and amended complaints were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal.

As of May 2, 2011, AIG has not yet been served with the complaint, defendants have not had an opportunity to answer or seek dismissal of the action, and, if the case does go forward, the Relators have not specified an amount of alleged damages. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

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Settlement Agreement with the Starr Parties

On November 25, 2009, a settlement agreement and memorandum of understanding (the AIG/Greenberg MOU) was entered into by AIG, on the one hand, and AIG's former Chief Executive Officer, Maurice R. Greenberg, AIG's former Chief Financial Officer, Howard I. Smith, C.V. Starr & Company, Inc. (C.V. Starr) and Starr International Company, Inc. (SICO), on the other hand (the Starr Parties). Under the terms of the AIG/Greenberg MOU, the parties have agreed to release each other from all claims, including any claims by Greenberg and Smith against AIG for indemnification of future legal fees and expenses, or settlement costs.

In addition, pursuant to the AIG/Greenberg MOU:

- SICO agreed to undertake to dismiss with prejudice an action it brought against AIG in the Tribuna del Circuito Civil, Panama City, Panama. 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.

- AIG agreed to undertake to dismiss with prejudice its direct claims against Greenberg and Smith in the Delaware 2004/2005 Derivative Litigation. 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 had taken the position that the AIG/Greenberg MOU also releases certain of the derivative claims being pursued by the shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation and the New York 2004/2005 Derivative Litigation. AIG had taken the opposite position. This issue as well as any others between the Starr Parties and AIG have been resolved by the settlement among the parties to the derivative actions, reached on August 25, 2010 (see The Delaware 2004/2005 Derivative Litigation herein for a description of the settlement).

2006 Regulatory Settlements and Related Regulatory 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). 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.

In addition to the escrowed funds, $800 million was deposited into, and subsequently disbursed by, a fund under the supervision of the SEC, to resolve claims asserted against AIG by investors, including the securities class action and shareholder lawsuits described below. Amounts held in escrow totaling approximately $338 million, including interest thereon (The Workers' Compensation Fund), are included in Other assets at March 31, 2011, and are specifically designated to satisfy liabilities related to workers' compensation premium reporting issues.

Also, as part of the settlements, AIG agreed to retain, for a period of three years which has been extended through June 30, 2011, 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 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 in early 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 called for total payments of $26 million by AIG, of which $4.4 million was paid under previous settlement agreements. During 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. On April 7, 2010, it was announced that AIG and the Ohio Attorney General entered into a settlement agreement to resolve the Ohio Attorney General's claim concerning producer compensation and insurance placement practices. AIG paid the Ohio Attorney General $9 million as part of that settlement.

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. The examination focused on legacy issues related to AIG's writing and reporting of workers' compensation insurance prior to 1996 and current compliance with legal requirements applicable to such business.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. The regulatory settlement agreement, which has been agreed to by all 50 states and the District of Columbia, includes, among other terms, (i) AIG's payment of $100 million in regulatory fines and penalties; (ii) AIG's payment of $46.5 million in outstanding premium taxes; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to $150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. The $146.5 million in fines, penalties and premium taxes can be funded out of the $338 million held in the Workers' Compensation Fund to the extent that such monies have not already been used to fund the class action settlement discussed below. The regulatory settlement is contingent upon and will not become effective until, among other events: (i) a final, court-approved settlement is reached in all the lawsuits that comprise the Workers' Compensation Premium Reporting Litigation, discussed below, including the putative class action, except that such settlement need not resolve claims between AIG and the Liberty Mutual Group in order for the regulatory settlement to become effective and (ii) a settlement is reached and consummated between AIG and certain state insurance guaranty funds that may assert claims against AIG for underpayment of guaranty-fund assessments.

AIG has established a reserve equal to the amounts payable under the proposed settlement.

Litigation Related to the Matters Underlying the 2006 Regulatory Settlements

AIG and certain present and former directors and officers of AIG have been named in various actions related to the matters underlying the 2006 Regulatory Settlements. These actions are described below.

The Consolidated 2004 Securities Litigation. 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 (the Consolidated 2004 Securities Litigation). Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds.

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The lead plaintiff in the Consolidated 2004 Securities Litigation 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 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, and Sections 20(a) and Section 20A of the Exchange Act.

In October 2009, the lead plaintiff advised the Court that it had entered into a settlement agreement with Greenberg, 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 settlement agreement between lead plaintiff and these defendants was filed with the Court on January 6, 2011.

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 and declined to certify a class with respect to certain counts of the complaint and dismissed those claims for lack of standing. With respect to 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 General 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 each filed petitions requesting permission to file an interlocutory appeal of the class certification decision. AIG, General Re, Richard Napier and Ronald Ferguson each filed opposition briefs to lead plaintiffs' petition.

On May 17, 2010, PwC and lead plaintiffs jointly moved for final approval of their settlement as proposed prior to class certification. On November 30, 2010, the Court approved the settlement between lead plaintiffs and PwC. On December 13, 2010, four shareholders filed a notice of appeal of the final judgment. The appeal is currently pending in the Second Circuit.

On June 23, 2010, General Re and lead plaintiffs jointly moved for preliminary approval of their settlement. On September 10, 2010, the Court issued an opinion denying the motion for preliminary approval and, on September 23, 2010, the Court dismissed the lead plaintiffs' causes of action with respect to General Re. On October 21, 2010, lead plaintiffs filed a notice of appeal of the Court's September 23, 2010 order dismissing the claims against the Gen Re defendants, as well as the March 4, 2010 order refusing to preliminarily approve a settlement with the Gen Re defendants, and the February 22, 2010 class certification order to the extent it denied class certification for the claims against the Gen Re defendants.

On June 28, 2010, the Second Circuit granted AIG's petition seeking permission to file an interlocutory appeal of the class certification decision, and denied the petition by lead plaintiffs. On September 1, 2010, AIG and lead plaintiffs entered into a stipulation to withdraw AIG's interlocutory appeal without prejudice to reinstate the appeal in the future, which has been endorsed by the Second Circuit. On February 4, 2011, AIG and lead

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plaintiffs entered into a stipulation to extend the time by which the appeal must be reinstated, which has been endorsed by the U.S. Court of Appeals for the Second Circuit.

On July 14, 2010, AIG approved the terms of a settlement (the Settlement) with lead plaintiffs. The Settlement is conditioned on, among other things, court approval and a minimum level of shareholder participation. Under the terms of the Settlement, if consummated, AIG will pay an aggregate of $725 million, $175 million of which is to be paid into escrow within ten days of preliminary court approval. AIG's obligation to fund the remainder of the settlement amount is conditioned on its having consummated one or more common stock offerings raising net proceeds of at least $550 million prior to final court approval (Qualified Offering). AIG has agreed to use best efforts, consistent with the fiduciary duties of AIG's management and Board of Directors, to effect a Qualified Offering, but the decision as to whether market conditions or pending or contemplated corporate transactions make it commercially reasonable to proceed with such an offering will be within AIG's unilateral discretion. In the event that AIG effects a registered secondary offering of common stock on behalf of the Department of the Treasury resulting in the Department of the Treasury receiving proceeds of at least $550 million, then market access will be deemed to have been demonstrated and AIG shall be deemed to have consummated a Qualified Offering. AIG, in its sole discretion, also may fund the $550 million from other sources. If AIG does not fund the $550 million before final court approval of the Settlement, lead plaintiffs may terminate the agreement, elect to acquire freely transferable shares of AIG Common Stock with a market value of $550 million provided AIG is able to obtain all necessary approvals, or extend the period for AIG to complete a Qualified Offering. As of March 31, 2011, AIG had an accrued liability for the full amount of the Settlement.

On July 20, 2010, at the joint request of AIG and lead plaintiffs, the District Court entered an order staying all deadlines in the case. On November 30, 2010, AIG and lead plaintiffs executed their agreement of settlement and compromise. On November 30, 2010, lead plaintiffs filed a motion for preliminary approval of the settlement with AIG, which is currently pending.

The New York 2004/2005 Derivative Litigation. 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 Consolidated 2004 Securities Litigation. 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 Greenberg and 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 appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The Court entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The Court also 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.

Under the AIG/Greenberg MOU, AIG agreed to undertake to dismiss with prejudice its claims against Greenberg and Smith in the New York 2004/2005 Derivative Litigation. The Starr Parties had taken the position that the AIG/Greenberg MOU released the derivative claims being pursued by the shareholder plaintiffs; AIG had taken the opposite position.

This action was resolved by the settlement among the parties to the derivative actions reached on August 25, 2010. See the Delaware 2004/2005 Derivative Litigation for a description of the settlement. By order dated March 11, 2011, the Court dismissed this action with prejudice. On April 13, 2011, the period for filing an appeal expired with no appeals filed. This matter has been concluded.

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The Delaware 2004/2005 Derivative Litigation. 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 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 Greenberg and 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 Consolidated 2004 Securities Litigation.

On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers 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 Greenberg, Matthews, and 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 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 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. The Delaware Supreme Court certified the question to the New York Court of Appeals as to whether, under certain circumstances, New York's *in pari delicto* doctrine would bar a derivative claim against a corporation's accountants for negligently failing to uncover a fraud by the corporation. On October 21, 2010 the New York Court of Appeals affirmatively answered the certified question.

On November 10, 2009, the Delaware Supreme Court granted AIG's motion to consolidate the appeal of its dismissal from the *In re Marsh Derivative Litigation* (see below, "*Derivative Action Delaware Chancery Court (Marsh)*") with the appeal of the dismissals of Marsh, General Re and ACE from the Delaware 2004/2005 Derivative Litigation, and subsequently issued an order notifying the parties that the appeal would be heard by the Court *en banc*. On December 29, 2010, the Delaware Supreme Court affirmed the Chancery Court's decision dismissing claims against AIG, General Re, Marsh, and ACE.

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On February 5, 2010, a stipulation of dismissal was filed with the Court dismissing AIG's direct claims against Greenberg and Smith, pursuant to the AIG/Greenberg MOU. On February 10, 2010, the shareholder plaintiffs informed the Court that they did not object to the dismissal of AIG's direct claims against Greenberg and Smith, but stated that the dismissal did not apply to their claim against Greenberg and Smith, and further stated that they intended to seek attorneys' fees for having initiated the claims against Greenberg and Smith. The Starr Parties had taken the position that the AIG/Greenberg MOU releases the derivative claims being pursued by the shareholder plaintiffs; AIG had taken the opposite position.

On August 25, 2010, AIG and the parties to the various derivative litigations relating to the matters underlying the 2006 Regulatory Settlements entered into a settlement agreement to resolve the New York 2004/2005 Derivative Litigation, the 2004/2005 Delaware Derivative Litigation and the Supreme Court of New York Derivative Action as well as AIG's outstanding disputes with the Starr Parties (the Derivative Actions Settlement). The settlement was conditioned on a separate agreement with AIG's directors and officers liability (D&O) insurers, under which the insurers would pay $150 million, $90 million of which would fund the settlement of the derivative claims and which, after the deduction of expenses and plaintiffs' counsel's attorneys' fees, would be paid to AIG. The remaining $60 million would go to Greenberg and Smith in satisfaction of any obligation that AIG or the insurers had with respect to their legal fees. On November 11, 2010, the insurers and the parties fully executed the insurance settlement agreement.

On January 25, 2011 the Delaware Court approved the Derivative Actions Settlement and dismissed the suit with prejudice. The action has concluded. Pursuant to the terms of the Derivative Action Settlement agreement, after dismissal of the Delaware 2004/2005 Derivative Litigation, the plaintiffs in the New York 2004/2005 Derivative Litigation and the Supreme Court of New York Derivative Action sought dismissal of those actions. By April 14, 2011, all derivative actions relating to the matters underlying the 2006 Regulatory Settlements had been dismissed with prejudice and no appeals taken. On April 14, 2011, AIG received the proceeds from the Derivative Actions Settlement, totaling approximately $66 million which will be recorded as income in the second quarter of 2011. Any outstanding issues between AIG and the Starr Parties relating to the AIG/Greenberg MOU have been mooted. In addition, pursuant to the insurance settlement agreement, an interpleader action filed by Great American Insurance Company related to competing claims on its D&O coverage policy was dismissed pursuant to stipulation, which was so-ordered by the court on April 20, 2011.

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. Defendants filed motions to dismiss the complaint on May 1, 2009. The shareholder plaintiffs have reached an agreement staying discovery as well as any motions to dismiss the General Re and Marsh defendants pending final adjudication of any claims against those parties in the Delaware 2004/2005 Derivative Litigation. The individual defendants have also filed motions to dismiss. Pursuant to the stipulation of settlement executed by the parties (see *The New York 2004/2005 Derivative Litigation herein*), the Court denied all pending motions to dismiss as moot.

This action was also resolved by the settlement among the parties to the derivative actions, reached on August 25, 2010. See *The Delaware 2004/2005 Derivative Litigation* for a description of the settlement. By order dated February 10, 2011, the Court dismissed this action with prejudice. On March 24, 2011, the period for filing an appeal expired with no appeals filed. This matter has concluded.

The Multi-District Litigation. 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 one or more broad conspiracies 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

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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 that defendants engaged in a number of overlapping "broker-centered" conspiracies to allocate customers through the payment of contingent commissions to brokers and through purported "bid-rigging" practices. It also alleges that the insurer and broker defendants participated in a "global" conspiracy not to disclose to policyholders the payment of contingent commissions. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, the Racketeer Influenced and Corrupt Organizations 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.

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 of customer allocation through steering and bid-rigging made in the Commercial Complaint.

The District Court, in connection with the Commercial and Employee Benefits Complaints, 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. Plaintiffs appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit (the Third Circuit) on October 10, 2007. On January 14, 2008, the District Court granted summary judgment to defendants on plaintiffs' ERISA claims in the Employee Benefits Complaint. On February 12, 2008, plaintiffs filed a notice of appeal to the Third Circuit with respect to the dismissal of the antitrust and RICO claims in the Employee Benefits Complaint.

On August 16, 2010, the Third Circuit affirmed the dismissal of the Employee Benefits Complaint in its entirety, affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded the case for further proceedings consistent with the opinion. Specifically, the Third Circuit affirmed the dismissal of plaintiffs' broader antitrust and RICO claims, but the Court reversed the District Court's dismissal of alleged "Marsh-centered" antitrust and RICO claims based on allegations of bid-rigging involving excess casualty insurance. The Court remanded these Marsh-centered claims to the District Court for consideration as to whether plaintiffs had adequately pleaded them. Because the Third Circuit vacated in part the judgment dismissing the federal claims in the Commercial Complaint, the Third Circuit also vacated the District Court's dismissal of the state-law claims in the Commercial Complaint.

On October 1, 2010, defendants named in the Commercial Complaint filed motions to dismiss the remaining remanded claims in the District of New Jersey. That motion is currently pending. On March 18, 2011, AIG and certain other defendants announced that they had entered into a memorandum of understanding (MOU) with class plaintiffs to settle the claims asserted against them in the Commercial Complaint. Under the terms of the MOU, it is anticipated that AIG will pay approximately $7 million of a total aggregate settlement amount of approximately $37 million. The settlement is conditioned on, among other things, the execution of a formal

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settlement agreement, court approval, and a minimum level of participation in the settlement fund by eligible purchasers of excess casualty insurance policies. Plaintiffs' attorneys' fees and litigation expenses, and the aggregate costs of notice and claims administration in connection with the settlement, would be paid from the settlement fund. As of March 31, 2011, AIG has an accrued liability for its portion of the settlement.

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. In one of those consolidated actions, *Palm Tree Computer Systems, Inc. v. Ace USA*, which is brought by two named plaintiffs on behalf of a proposed class of insurance purchasers, the plaintiffs allege specifically with respect to their claim for breach of fiduciary duty against the insurer defendants that neither named plaintiff nor any member of the proposed class suffered damages "exceeding $74,999 each." Plaintiffs do not specify damages as to other claims against the insurer defendants in the complaint. The plaintiffs in *Palm Tree* have not yet sought certification of the class, as that case has been stayed by the District Court in New Jersey. Because discovery has not been completed and the District Court has not determined if a class action is appropriate or the size or scope of any class, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Palm Tree* litigation. In another consolidated action, *The Heritage Corp. of South Florida v. National Union Fire Ins. Co.*, an individual plaintiff alleges damages "in excess of $75,000." Because discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Heritage Corp*. litigation. For the remaining consolidated actions, as of May 2, 2011, plaintiffs have not specified an amount of alleged damages arising from these actions. AIG is therefore unable to reasonably estimate the possible loss or range of losses, if any, arising from these matters.

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 four cases have proceeded; one each in Florida and New Jersey state courts that have settled, and one each in Texas and Kansas state courts have proceeded (although discovery is stayed in both actions). In the Texas action, plaintiff filed its Fourth Amended Petition on July 13, 2009 and on August 14, 2009, defendants filed renewed special exceptions. Plaintiff in the Texas action alleges a "maximum" of $125 million in total damages (after trebling). Because the Court has not rendered a decision on defendants' renewed special exceptions and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the Texas action. In the Kansas action, defendants are appealing to the Kansas Supreme Court the trial court's denial of defendants' motion to dismiss on statute of limitations grounds. Briefing on the appeal was completed in December 2010. In the Kansas action, the plaintiff alleges damages in an amount "greater than $75,000" for each of the three claims directed against AIG in the complaint. Because the Kansas Supreme Court has not decided the appeal of the trial court's denial of defendants' motion to dismiss, and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, from the Kansas action.

Workers' Compensation Premium Reporting. On May 24, 2007, the National Council on Compensation Insurance (NCCI), on behalf of the participating members of the National Workers' Compensation Reinsurance Pool (the NWCRP), filed a lawsuit in the United States District Court for the Northern District of Illinois (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 AIG's motion to dismiss the complaint.

On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against NCCI (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance

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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 NCCI 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 NCCI, 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.

On April 1, 2009, Safeco Insurance Company of America and Ohio Casualty Insurance Company filed a complaint in 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 NCCI 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. On July 16, 2010, Safeco Insurance Company and Ohio Casualty Insurance Company filed their motion for class certification, which AIG opposed on October 8, 2010.

On July 1, 2010, the Court ruled on the pending motions to dismiss that were directed at all parties' claims. With respect to the underreporting NWCRP companies' and board members' motion to dismiss AIG's first amended complaint, the Court denied the motion to dismiss all counts except AIG's claim for unjust enrichment, which it found to be precluded by the surviving claims for breach of contract. With respect to NCCI and the NWCRP's motion to dismiss AIG's first amended complaint, the Court denied the NCCI and the NWCRP's motions to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. With respect to AIG's motions to dismiss Liberty's counterclaims and the class action complaint, the Court denied both motions, except that it dismissed the class claim for promissory estoppel. On July 30, 2010, the NWCRP filed a motion for reconsideration of the Court's ruling denying its motion to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. The Court denied the NWCRP's motion for reconsideration on September 16, 2010. The plaintiffs filed a motion for class certification on July 16, 2010. AIG opposed the motion.

On January 5, 2011, AIG executed a term sheet with a group of intervening plaintiffs, made up of seven participating members of the NWCRP that filed a motion to intervene in the class action for the purpose of settling the claims at issue on behalf of a settlement class. The proposed class-action settlement would require AIG to pay $450 million to satisfy all liabilities to the class members arising out of the workers' compensation premium reporting issues, a portion of which would be funded out of the remaining amount held in the Workers' Compensation Fund less any amounts previously withdrawn to satisfy AIG's regulatory settlement obligations, as addressed above. On January 13, 2011, their motion to intervene was granted. On January 19, 2011, the intervening class plaintiffs filed their Complaint in Intervention. On January 28, 2011, AIG and the intervening class plaintiffs entered into a settlement agreement embodying the terms set forth in the January 5, 2011 term

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sheet and filed a joint motion for certification of the settlement class and preliminary approval of the settlement. If approved by the Court (and such approval becomes final), the settlement agreement will resolve and dismiss with prejudice all claims that have been made or that could have been made in the consolidated litigations pending in the Northern District of Illinois arising out of workers' compensation premium reporting, including the class action, other than claims that are brought by any class member that opts out of the settlement. On April 29, 2011, Liberty Mutual Group filed papers in opposition to preliminary approval of the proposed settlement and in opposition to certification of a settlement class, in which it alleged AIG's actual exposure, should the class action continue through judgment, to be in excess of $3 billion. AIG disputes and will defend against this allegation. The $450 million settlement amount along with the $146.5 million in fines, penalties, and premium taxes discussed in the NAIC Examination of Workers' Compensation Premium Reporting matter above may be funded in part from the $338 million held in the Workers' Compensation Fund. In the event that the proposed class action settlement is not approved, or that certain class members opt out of the settlement and continue to pursue their claims against AIG, the litigation will resume. AIG has an accrued liability equal to the amounts payable under the settlement. Amounts held in escrow totaling approximately $338 million, including interest thereon, are included in Other assets at March 31, 2011, and are specifically designated to satisfy liabilities related to workers' compensation premium reporting issues.

Litigation Matters Relating to AIG's 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 intervened in the first-filed action, and the second-filed action was 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 intervenors 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 intervenors 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, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, 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.

In November 2007, the trial court dismissed the intervenors' complaint against the Lawyer Defendants, and the Alabama Supreme Court affirmed that dismissal in September 2008. After the case was sent back down to the trial court, the intervenors retained additional counsel and filed an Amended Complaint in Intervention that named only Caremark and AIG and various subsidiaries as defendants, purported to bring claims against all defendants for deceit and conspiracy to deceive, and purported to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception. The defendants moved to dismiss the Amended Complaint in Intervention, and the plaintiffs moved to disqualify all of the lawyers for the intervenors because, among other things, the newly retained firm had previously represented Caremark. The intervenors, in turn, moved to disqualify the lawyers for the plaintiffs in the first-filed action. The cross-motions to disqualify were withdrawn after the two sets of plaintiffs agreed that counsel for the original plaintiffs would act as lead counsel, and intervenors also withdrew their Amended Complaint in Intervention. The trial Court approved all of the foregoing steps and, in April 2009, established a schedule for class action discovery that was to lead to a hearing on class certification in March 2010. The Court has since appointed a special master to oversee class action discovery and has directed the

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parties to submit a new discovery schedule after certain discovery disputes are resolved. Class discovery is ongoing, and no schedule for the class certification hearing has been set.

As of May 2, 2011, the parties have not completed class action discovery, general discovery has not commenced, and the court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

(b) Commitments

Flight Equipment

At March 31, 2011, ILFC had committed to purchase 236 new aircraft deliverable from 2011 through 2019, at an estimated aggregate purchase price of approximately $17.6 billion. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

During 2011, ILFC entered into a contract for the purchase of 75 A320 New Engine Option (neo) and 25 A321neo aircraft from Airbus with deliveries beginning in 2015 and canceled its previous purchase commitment for ten A380s. In addition, ILFC signed a purchase agreement for 33 737-800 aircraft from Boeing with deliveries beginning in 2012.

Other Commitments

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 $3.4 billion at March 31, 2011.

(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, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes, as well as 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.

(d) Guarantees

Subsidiaries

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP 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

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outstanding at March 31, 2011 was $901 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of a scheduled payment to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that 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.

Asset Dispositions

General

AIG is subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to its asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by AIG. These arrangements 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 are not applicable.

AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheet. See Notes 1 and 4 herein for additional information on sales of businesses and asset dispositions.

ALICO Sale

Pursuant to the terms of the ALICO stock purchase agreement, AIG has agreed to provide MetLife with certain indemnities, the most significant of which include:

- Indemnification related to breaches of general representations and warranties with an aggregate deductible of $125 million and a maximum payout of $2.25 billion. The indemnification extends for 21 months after November 1, 2010.

- Indemnifications related to specific product, investment, litigation and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and extend for various periods after the completion of the sale.

- Tax indemnifications related to insurance reserves that extend for taxable periods ending on or before December 31, 2013 and that are limited to an aggregate of $200 million, and certain other tax-related representations and warranties that extend to the expiration of the statute of limitations and are subject to an aggregate deductible of $50 million.

- Indemnification for taxes incurred by ALICO as a result of the proposed elections under Section 338 of the Internal Revenue Code (the Code). Such elections have the effect of shifting the federal income tax liability on the sale from the seller to ALICO. On March 8, 2011, AIG paid MetLife $300 million related to this indemnity.

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In connection with the above, AIG has placed $2.7 billion of proceeds from the ALICO Sale (consisting of $3.0 billion of initial cash proceeds from the sale of MetLife securities received upon the completion of the ALICO Sale, less payment of $300 million to MetLife as explained above) into an escrow arrangement. The amount required to be held in escrow declines to zero over a 30-month period ending in April 2013, with claims submitted related to the indemnifications reducing the amount that can be released to AIG. AIG has accrued for estimated liabilities for indemnities, including the Italian internal fund suspension matter discussed above.

Star/Edison Sale

Pursuant to the terms of the Star/Edison stock purchase agreement, AIG has agreed to provide Prudential Financial, Inc. with certain indemnities, the most significant of which is indemnification related to breaches of general representations and warranties that exceed 4.1 billion Yen ($49 million at the March 31, 2011 exchange rate), with a maximum payout of 102 billion Yen ($1.2 billion at the March 31, 2011 exchange rate). Except for certain specified representations and warranties that may have a longer survival period, the indemnification extends until November 1, 2012.

For additional information on AIG's guarantees, see Notes 9, 10 and 15 herein.

12. Total Equity and Earnings (Loss) Per Share

Shares Outstanding

The following table presents a rollforward of outstanding shares:

Three Months Ended March 31, 2011	Preferred Stock AIG Series E	AIG Series F	AIG Series C	AIG Series G	Common Stock	Treasury Stock
Shares issued, beginning of year	400,000	300,000	100,000	-	147,124,067	6,660,908
Issuances	-	-	-	20,000	1,218,766	(56)
Shares exchanged	(400,000)	(300,000)	(100,000)	-	1,655,037,962	-
Shares issued, end of period	-	-	-	20,000	1,803,380,795	6,660,852

Preferred Stock

See Note 1 herein for a discussion of the Recapitalization.

Equity Units

In November 2010, AIG exchanged 49,474,600 of its Equity Units, each consisting of interests in subordinated debentures and stock purchase contracts, for 4,881,667 shares of AIG Common Stock and approximately $162 million in cash. Each Equity Unit was exchanged for 0.09867 shares of AIG Common Stock and $3.2702 in cash. The stock and cash received by the Equity Unit holders was the result of netting payments from two separate transactions a repurchase of the subordinated debentures and a cancellation of the stock purchase contracts.

Following the completion of the exchange offer, a total of 28,925,400 Equity Units remained outstanding. In addition, the remaining debentures continue to be subject to remarketing. In January 2011, AIG remarketed the first of three series of the remaining debentures included in the Equity Units. AIG purchased and retired all of the Series B-1 Debentures representing $723 million in aggregate principal and as a result, no Series B-1 Debentures remain outstanding. In March 2011, AIG remarketed the second of three series of the remaining debentures included in the Equity Units. AIG purchased and retired all of the Series B-2 Debentures representing $723 million in aggregate principal and as a result, no Series B-2 Debentures remain outstanding. The remarketing of the remaining Series B-3 Debentures included in the Equity Units is expected to occur later in

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2011. In February 2011, AIG issued approximately 1.2 million shares of its common stock in connection with the settlement of the stock purchase contract portion of the Equity Units subject to the First Stock Purchase Date of the Equity Units.

Accumulated Other Comprehensive Income (Loss)

A rollforward of Accumulated other comprehensive income (loss) is as follows:

Three Months Ended March 31, 2011 *(in millions)*	**Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken**	**Unrealized Appreciation (Depreciation) of All Other Investments**	**Foreign Currency Translation Adjustments**	**Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities**	**Retirement Plan Liabilities Adjustment**	**Total**
Balance, beginning of year, net of tax	$ (659)	$ 8,888	$ 298	$ (34)	$ (869)	$ 7,624
Unrealized appreciation (depreciation) of investments	612	(1,144)	-	-	-	(532)
Net changes in foreign currency translation adjustments	-	-	(944)	-	-	(944)
Net gains on cash flow hedges	-	-	-	18	-	18
Net actuarial gain	-	-	-	-	267	267
Prior service cost	-	-	-	-	(17)	(17)
Deferred tax asset (liability)	(216)	413	296	(5)	(115)	373
Total other comprehensive income (loss)	396	(731)	(648)	13	135	(835)
Acquisition of noncontrolling interest	-	78	84	-	(19)	143
Noncontrolling interests	3	(3)	36	-	-	36
Balance, end of period, net of tax	$ (266)	$ 8,238	$ (302)	$ (21)	$ (753)	$ 6,896

Noncontrolling interests

In connection with the ongoing execution of its orderly asset disposition plan, as well as plans to timely repay the FRBNY Credit Facility, AIG transferred two of its wholly owned businesses, AIA and ALICO, to two newly created special purpose vehicles (SPVs) in exchange for all the common and preferred interests of those SPVs. On December 1, 2009, AIG transferred the preferred interests in the SPVs to the FRBNY in consideration for a $25 billion reduction of the outstanding loan balance and of the maximum amount of credit available under the FRBNY Credit Facility and amended the terms of the FRBNY Credit Facility. The remaining preferred interests, with an aggregate liquidation preference of approximately $26.4 billion at December 31, 2010, were transferred by the FRBNY to the Department of the Treasury as part of the closing of the Recapitalization. The remaining preferred interests, which have an aggregate liquidation preference of approximately $20.3 billion following a partial repayment on January 14, 2011, which included proceeds from the sale of ALICO, were transferred by the FRBNY to AIG and subsequently transferred to the Department of the Treasury as part of the Recapitalization. Under the terms of the SPVs' limited liability company agreements, the SPVs generally may not distribute funds to AIG until the liquidation preferences and preferred returns on the preferred interests have been repaid in full and concurrent distributions have been made on certain participating returns attributable to the preferred interests.

The common interests, which were retained by AIG, entitle AIG to 100 percent of the voting power of the SPVs. The voting power allows AIG to elect the boards of managers of the SPVs, who oversee the management and operation of the SPVs. Primarily due to the substantive participation rights of the preferred interests, the

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SPVs were determined to be variable interest entities. As the primary beneficiary of the SPVs, AIG consolidates the SPVs.

The rights held by the FRBNY through their ownership of the preferred interests are now held by the Department of the Treasury. In connection with the Recapitalization, AIG agreed to cause the proceeds of certain asset dispositions to be used to redeem the remaining preferred interests.

As a result of the closing of the Recapitalization on January 14, 2011, the SPV Preferred Interests held by the Department of Treasury are not considered permanent equity on AIG's Consolidated Balance Sheet, and were classified as redeemable non-controlling interests in partially owned consolidated subsidiaries. As part of the Recapitalization, AIG used approximately $6.1 billion of the cash proceeds from the sale of ALICO to repay a portion of the liquidation preference and accrued return of the SPV Preferred Interests. The SPV Preferred Interests were further reduced during the first quarter of 2011 by approximately $9.1 billion using proceeds from the sale of AIG Star, AIG Edison and the sale of MetLife securities received in the sale of ALICO.

A rollforward of non-controlling interests is as follows:

	Redeemable Noncontrolling interests			Non-redeemable Noncontrolling interests		
(in millions)	Held by Department of Treasury	Other	Total	Held by FRBNY	Other	Total
Three Months Ended March 31, 2011						
Balance as of beginning of year	$ -	$ 434	$ 434	$ 26,358	$ 1,562	$ 27,920
Repurchase of SPV preferred interests in connection with Recapitalization	-	-	-	(26,432)	-	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization	20,292	-	20,292	-	-	-
Repayment to Department of Treasury	(9,146)	-	(9,146)	-	-	-
Net distributions	-	(26)	(26)	-	(96)	(96)
Deconsolidation	-	(125)	(125)	-	(109)	(109)
Acquisition of noncontrolling interest	-	-	-	-	(509)	(509)
Comprehensive income:						
Net income (loss)	178	9	187	74	(57)	17
Accumulated other comprehensive income (loss), net of tax:						
Unrealized gains (losses) on investments	-	(1)	(1)	-	1	1
Foreign currency translation adjustments	-	-	-	-	36	36
Total accumulated other comprehensive income (loss), net of tax	-	(1)	(1)	-	37	37
Total comprehensive income (loss)	178	8	186	74	(20)	54
Other	-	(13)	(13)	-	(9)	(9)

Balance, end of period	**$ 11,324**	**$ 278**	**$ 11,602**	**$ -**	**$ 819**	**$ 819**

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	Redeemable Noncontrolling interests			Non-redeemable Noncontrolling interests		
(in millions)	Held by Department of Treasury	Other	Total	Held by FRBNY	Other	Total
Three Months Ended March 31, 2010						
Balance as of beginning of year	$ -	$ 959	$ 959	$ 24,540	$ 3,712	$ 28,252
Net contributions	-	156	156	-	123	123
Consolidation (deconsolidation)	-	835	835	-	(2,161)	(2,161)
Comprehensive income:						
Net income (loss)	-	(4)	(4)	519	133	652
Accumulated other comprehensive income (loss), net of tax:						
Unrealized gains (losses) on investments	-	7	7	-	(62)	(62)
Foreign currency translation adjustments	-	(2)	(2)	-	(103)	(103)
Total accumulated other comprehensive income (loss), net of tax	-	5	5	-	(165)	(165)
Total comprehensive income (loss)	-	1	1	519	(32)	487
Other	-	(11)	(11)	-	17	17
Balance, end of period	$ -	$ 1,940	$ 1,940	$ 25,059	$ 1,659	$ 26,718

Earnings (Loss) Per Share (EPS)

Basic and diluted earnings (loss) per share are based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted earnings per share is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits. Basic earnings (loss) per share is not affected by outstanding stock purchase contracts. Diluted earnings per share is determined considering the potential dilution from outstanding stock purchase contracts using the treasury stock method and will not be affected by outstanding stock purchase contracts until the applicable market value per share exceeds $912.

In connection with the issuance of the Series C Preferred Stock, in 2010 AIG applied the two-class method for calculating EPS. The two-class method is an earnings allocation method for computing EPS when a company's capital structure includes either two or more classes of common stock or common stock and participating securities. This method determines EPS based on dividends declared on common stock and participating securities (i.e., distributed earnings) as well as participation rights of participating securities in any undistributed earnings. The Series C Preferred Stock was retired as part of the Recapitalization on January 14, 2011.

AIG applied the two-class method due to the participation rights of the Series C Preferred Stock through January 14, 2011. However, application of the two-class method had no effect on earnings per share because AIG recognized a net loss from continuing operations for the three months ended March 31, 2011. Subsequent to that date, AIG did not have any outstanding participating securities that subjected AIG to the two-class method.

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The following table presents the computation of basic and diluted EPS:

Three Months Ended March 31, ***(dollars in millions, except per share data)***	**2011**	**2010**
Numerator for EPS:		
Income (loss) from continuing operations	**$ (1,180)**	$ 2,088
Net income from continuing operations attributable to noncontrolling interests:		
Noncontrolling nonvoting, callable, junior and senior preferred interests held by Federal Reserve Bank of New York	**252**	519
Other	**(55)**	119
Total net income from continuing operations attributable to noncontrolling interests	**197**	638