Quad/Graphics, Inc.
Form 4
April 03, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Vanderboom Kelly A

(Last) (First) (Middle)

C/O QUAD/GRAPHICS, INC., N61 W23044 HARRY'S WAY

(Street)

SUSSEX, WI 53089

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Quad/Graphics, Inc. [QUAD]

3. Date of Earliest Transaction (Month/Day/Year)
04/01/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
VP & Treasurer *

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class A Common Stock	04/01/2015		A		13,004 (1)	A	$ 0	38,536 (1)	D	
Class A Common Stock								1,307	I	By 401(a) Plan

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Options (Right to Buy)	$ 13.4708							(2)	11/18/2021	Class A Common Stock	2,500	
Stock Options (Right to Buy)	$ 23.37							(3)	01/31/2017	Class A Common Stock	5,000	
Stock Options (Right to Buy)	$ 29.37							(4)	01/31/2018	Class A Common Stock	5,000	
Stock Options (Right to Buy)	$ 15.37							(5)	01/31/2019	Class A Common Stock	5,000	
Stock Options (Right to Buy)	$ 16.62							(4)	01/31/2020	Class A Common Stock	10,000	
Stock Options (Right to Buy)	$ 41.26							(6)	01/01/2021	Class A Common Stock	4,786	
Stock Options (Right to Buy)	$ 14.14							(7)	01/01/2022	Class A Common Stock	4,786	

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Vanderboom Kelly A C/O QUAD/GRAPHICS, INC. N61 W23044 HARRY'S WAY SUSSEX, WI 53089			VP & Treasurer *	

Signatures

/s/ Russell E. Ryba, Attorney-In-Fact for Kelly A. Vanderboom	04/03/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes 13,004 shares of restricted stock granted under the Quad/Graphics, Inc. 2010 Omnibus Incentive Plan that will vest on March 1, 2018.

(2) Became exercisable as to 1,250 shares on May 14, 2012, and become exercisable ratably over the next three years with respect to the remaining shares beginning on November 18, 2012.

(3) Became exercisable as to 2,500 shares on May 14, 2012, and become exercisable ratably over the next three years with respect to the remaining shares beginning on November 18, 2012.

(4) Became exercisable as to 2,000 shares on May 14, 2012, and become exercisable ratably over the next three years with respect to the remaining shares beginning on November 18, 2012.

(5) Became exercisable as to 1,500 shares on May 14, 2012, and become exercisable ratably over the next three years with respect to the remaining shares beginning on November 18, 2012.

(6) Vests and becomes exercisable in three equal annual installments beginning on January 1, 2013.

(7) Vests and becomes exercisable in three equal annual installments beginning on January 1, 2014.

Remarks:

* Vice President & Treasurer, President of Logistics

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. NT SIZE=2>(0.9) - (0.9)

Balance, end of period recorded in:

Accumulated deficit

25.7 (18.4) 7.3

Accumulated other comprehensive loss

0.1 (0.6) (0.5)

Balance, end of period

$25.8 (19.0)6.8

In the second quarter of 2009, AIG reduced its deferred tax asset valuation allowance by $2.5 billion as a result of adopting a new accounting standard. This decrease reflected the reversal of that portion of the allowance pertaining to the other-than-temporary severity impairments reclassified from Accumulated deficit to Accumulated other comprehensive loss.

For the nine months ended September 30, 2009, the valuation allowance increased by $0.2 billion related to the change in management's estimate of future earnings including the value of businesses to be sold and changes in the divestiture plans, and by a $0.4 billion for certain available for sale fixed maturity securities for which management could no longer assert it had the ability and intent to hold to recovery for tax purposes.

At September 30, 2009, AIG reported a net deferred tax asset after valuation allowance of $6.8 billion. This asset was net of $3.9 billion of net deferred tax liabilities related to foreign subsidiaries and certain domestic subsidiaries that file separate tax returns and $0.5 billion of deferred tax liabilities on available for sale securities which are evaluated separately. Management determined, based on its assessment of future earnings, principally related to AIG's divestiture plan, that it is more likely than not that the remaining $11.2 billion net deferred tax asset is realizable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Realization of AIG's net deferred tax asset depends on AIG's ability to consummate the proposed AIA and ALICO transactions and to generate sufficient future taxable income of the appropriate character within carryforward periods of the jurisdictions in which the net operating and capital losses, tax credits and deductible temporary differences were incurred.

Estimates of future taxable income could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG's consolidated financial condition or its results of operations.

When making its assessment about the realization of its deferred tax assets at September 30, 2009, AIG considered all available evidence, including (i) the nature, frequency, and severity of current and cumulative financial reporting losses, (ii) actions completed to date and additional actions expected to be completed, (iii) the carryforward periods for the net operating and capital loss and foreign tax credit carryforwards, (iv) the sources and timing of future taxable income, giving greater weight to discrete sources and to earlier years in the forecast period, and (v) tax planning strategies that would be implemented, if necessary, to accelerate taxable amounts. Management has also considered the period during which it expects to receive support from the FRBNY.

At September 30, 2009, AIG has deferred tax assets related to stock compensation of $211 million. Due to the significant decline in AIG's stock price, these deferred tax assets may not be realizable in the future. The accounting guidance for accounting for share based payments precludes AIG from recognizing an impairment charge on these assets until the related stock awards are exercised, vested or expired. Any charge associated with the deferred tax assets is reported in additional paid-in capital until the pool of previously recognized tax benefits recorded in additional paid-in capital is reduced to zero. Income tax expense would be recognized for any additional charge.

Tax Litigation

On February 26, 2009, AIG filed a complaint in the United States District Court for the Southern District of New York seeking a refund of approximately $306 million in taxes, interest and penalties paid with respect to its 1997 taxable year. AIG alleges that the IRS improperly disallowed foreign tax credits and that AIG's taxable income should be reduced as a result of AIG's 2005 restatement of its consolidated financial statements.

Accounting for Uncertainty in Income Taxes

At September 30, 2009 and December 31, 2008, AIG's unrecognized tax benefits, excluding interest and penalties, were $3.8 billion and $3.4 billion, respectively. The increase during the first nine months of 2009 is primarily attributable to foreign tax credits associated with cross border financing transactions. At both September 30, 2009 and December 31, 2008, AIG's unrecognized tax benefits included $0.7 billion related to tax positions the disallowance of which would not affect the effective tax rate. Accordingly, at September 30, 2009 and December 31, 2008, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $3.1 billion and $2.7 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At September 30, 2009 and December 31, 2008 AIG had accrued $608 million and $426 million, respectively, for the payment of interest (net of the federal benefit) and penalties.

AIG continually evaluates adjustments proposed by taxing authorities. At September 30, 2009, such proposed adjustments would not have resulted in a material change to AIG's consolidated financial condition, although it is possible that the effect could be material to AIG's consolidated results of operations for an individual reporting period. Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

13. Information Provided in Connection With Outstanding Debt

The following condensed consolidating financial statements reflect the results of AIG Life Holdings (US), Inc. (AIGLH), formerly known as American General Corporation, a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of AIGLH.

Condensed Consolidating Balance Sheet

(in millions)		American International Group, Inc. (As Guarantor)		AIGLH		Other Subsidiaries		Eliminations		Consolidated AIG
September 30, 2009										
Assets:										
Investments[a]	$	**10,995**	$	**40**	$	**769,906**	$	**(143,015)**	$	**637,926**
Loans to subsidiaries[b]		**68,485**		**-**		**(68,485)**		**-**		**-**
Cash		**112**		**-**		**4,845**		**-**		**4,957**
Investment in consolidated subsidiaries[b]		**89,384**		**30,907**		**(5,311)**		**(114,980)**		**-**
Debt issuance costs, including prepaid commitment asset of $12,992		**13,280**		**-**		**170**		**-**		**13,450**
Other assets, including current and deferred income taxes		**12,845**		**2,580**		**172,605**		**(19)**		**188,011**
Total assets	$	**195,101**	$	**33,527**	$	**873,730**	$	**(258,014)**	$	**844,344**
Liabilities:										
Insurance liabilities	$	**-**	$	**-**	$	**493,818**	$	**(100)**	$	**493,718**
Federal Reserve Bank of New York credit facility		**41,009**		**-**		**-**		**-**		**41,009**
Federal Reserve Bank of New York Commercial Paper Funding Facility		**-**		**-**		**9,607**		**-**		**9,607**
Other debt		**46,777**		**2,137**		**215,092**		**(141,809)**		**122,197**
Other liabilities, including intercompany balances[a]		**34,603**		**4,137**		**61,109**		**269**		**100,118**
Total liabilities		**122,389**		**6,274**		**779,626**		**(141,640)**		**766,649**
Redeemable noncontrolling interest in partially owned consolidated subsidiaries		**-**		**-**		**1,159**		**(1)**		**1,158**
Total AIG shareholders' equity		**72,712**		**27,253**		**88,496**		**(115,749)**		**72,712**
Noncontrolling interest		**-**		**-**		**4,449**		**(624)**		**3,825**
Total equity		**72,712**		**27,253**		**92,945**		**(116,373)**		**76,537**
Total liabilities and equity	$	**195,101**	$	**33,527**	$	**873,730**	$	**(258,014)**	$	**844,344**
December 31, 2008										
Assets:										
Investments[a]	$	16,110	$	-	$	753,181	$	(132,379)	$	636,912
Loans to subsidiaries[b]		64,283		-		(64,283)		-		-
Cash		103		-		8,539		-		8,642
Investment in consolidated subsidiaries[b]		65,724		23,256		34,499		(123,479)		-
Debt issuance costs, including prepaid commitment asset of $15,458		15,743		-		172		-		15,915
Other assets		11,707		2,626		184,923		(307)		198,949

Total assets	$	173,670	$	25,882	$	917,031	$	(256,165)	$	860,418
Liabilities:										
Insurance liabilities	$	-	$	-	$	503,171	$	(103)	$	503,068
Federal Reserve Bank of New York credit facility		40,431		-		-		-		40,431
Federal Reserve Bank of New York Commercial Paper Funding Facility		-		-		15,105		-		15,105
Other debt		47,928		2,097		219,596		(131,954)		137,667
Other liabilities[(a)]		32,601		3,063		64,804		953		101,421
Total liabilities		120,960		5,160		802,676		(131,104)		797,692
Redeemable noncontrolling interest in partially owned consolidated subsidiaries		-		-		1,921		-		1,921
Total AIG shareholders' equity		52,710		20,722		103,489		(124,211)		52,710
Noncontrolling interest		-		-		8,945		(850)		8,095
Total equity		52,710		20,722		112,434		(125,061)		60,805
Total liabilities and equity	$	173,670	$	25,882	$	917,031	$	(256,165)	$	860,418

(a)
Includes intercompany derivative positions, which are reported at fair value before credit valuation adjustment.

(b)
Eliminated in consolidation.

82

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Condensed Consolidating Statement of Income (Loss)

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Eliminations	Consolidated AIG
Three Months Ended September 30, 2009					
Operating income (loss)	**$ (1,806)**	**$ (44)**	**$ 1,643**	**$ -**	**$ (207)**
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	**695**	**176**	**-**	**(871)**	**-**
Dividend income from consolidated subsidiaries[(a)]	**811**	**-**	**-**	**(811)**	**-**
Income tax expense (benefit)[(b)]	**(755)**	**46**	**517**	**-**	**(192)**
Net income (loss)	**455**	**86**	**1,126**	**(1,682)**	**(15)**
Less: Net loss attributable to noncontrolling interest	**-**	**-**	**(470)**	**-**	**(470)**
Net income (loss) attributable to AIG	**$ 455**	**$ 86**	**$ 1,596**	**$ (1,682)**	**$ 455**
Three Months Ended September 30, 2008					
Operating loss	$ (3,250)	$ (24)	$ (24,911)	$ -	$ (28,185)
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	(17,803)	(7,858)	-	25,661	-
Dividend income from consolidated subsidiaries[(a)]	881	75	-	(956)	-
Income tax expense (benefit)[(b)]	4,296	(1)	(7,775)	-	(3,480)
Net loss	(24,468)	(7,806)	(17,136)	24,705	(24,705)
Less: Net income attributable to the noncontrolling interest	-	-	(237)	-	(237)
Net loss attributable to AIG	$ (24,468)	$ (7,806)	$ (16,899)	$ 24,705	$ (24,468)
Nine Months Ended September 30, 2009					
Operating income (loss)	**$ (5,405)**	**$ (112)**	**$ 261**	**$ -**	**$ (5,256)**
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	**64**	**(710)**	**-**	**646**	**-**
Dividend income from consolidated subsidiaries[(a)]	**1,331**	**169**	**-**	**(1,500)**	**-**
Income tax expense (benefit)[(b)]	**(1,934)**	**27**	**(46)**	**-**	**(1,953)**
Net income (loss)	**(2,076)**	**(680)**	**307**	**(854)**	**(3,303)**
Less: Net loss attributable to noncontrolling interest	**-**	**-**	**(1,227)**	**-**	**(1,227)**
Net income (loss) attributable to AIG	**$ (2,076)**	**$ (680)**	**$ 1,534**	**$ (854)**	**$ (2,076)**
Nine Months Ended September 30, 2008					
Operating loss	$ (4,135)	$ (65)	$ (44,005)	$ -	$ (48,205)
Equity in undistributed net income (loss) of consolidated subsidiaries[(a)]	(31,721)	(10,833)	-	42,554	-
Dividend income from consolidated subsidiaries[(a)]	2,354	75	-	(2,429)	-
Income tax expense (benefit)[(b)]	4,128	(8)	(14,494)	-	(10,374)
Net loss	(37,630)	(10,815)	(29,511)	40,125	(37,831)
Less: Net income attributable to the noncontrolling interest	-	-	(201)	-	(201)
Net loss attributable to AIG	$ (37,630)	$ (10,815)	$ (29,310)	$ 40,125	$ (37,630)

(a) *Eliminated in consolidation.*

(b) *The net tax benefit recorded with respect to AIG parent includes increases in the valuation allowance of $429 million, and $234 million for the three- and nine-month periods ended September 30, 2009, respectively. The increase in valuation allowance is mainly attributable to book and tax basis differences of AIG Parent's investment in subsidiaries. See Note 12 for additional information.*

83

Table of Contents

American International Group, Inc., and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Condensed Consolidating Statement of Cash Flows

(in millions)	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Nine Months Ended September 30, 2009				
Net cash (used in) provided by operating activities	$ 286	$ (113)	$ 11,801	$ 11,974
Cash flows from investing activities:				
Invested assets disposed	1,345	-	94,654	95,999
Invested assets acquired	(235)	-	(82,731)	(82,966)
Sales of divested businesses, net	857	169	3,632	4,658
Loans to subsidiaries net	(2,200)	-	2,200	-
Other	(2,003)	(2,350)	(4,189)	(8,542)
Net cash (used in) provided by investing activities	(2,236)	(2,181)	13,566	9,149
Cash flows from financing activities:				
Federal Reserve Bank of New York credit facility borrowings	20,000	-	-	20,000
Repayment of Federal Reserve Bank of New York credit facility borrowings	(21,000)	-	-	(21,000)
Issuance of long-term debt	-	-	4,059	4,059
Repayments of long-term debt	(1,880)	-	(13,724)	(15,604)
Intercompany loan net	1,655	1,094	(2,749)	-
Proceeds from drawdown on the Department of the Treasury Commitment	3,206	-	-	3,206
Other	(22)	1,200	(16,842)	(15,664)
Net cash (used in) provided by financing activities	1,959	2,294	(29,256)	(25,003)

Effect of exchange rate changes on cash		**-**		**-**		**195**		**195**
Change in cash		**9**		**-**		**(3,694)**		**(3,685)**
Cash at beginning of period		**103**		**-**		**8,539**		**8,642**
Cash at end of period	**$**	**112**	**$**	**-**	**$**	**4,845**	**$**	**4,957**
Nine Months Ended September 30, 2008								
Net cash (used in) provided by operating activities	$	1,986	$	(210)	$	(888)	$	888
Cash flows from investing:								
Invested assets disposed		685		-		119,300		119,985
Invested assets acquired		(3,925)		-		(136,156)		(140,081)
Loans to subsidiaries net		(74,961)		-		74,961		-
Other		(1,759)		(16)		13,925		12,150
Net cash (used in) provided by investing activities		(79,960)		(16)		72,030		(7,946)
Cash flows from financing activities:								
Federal Reserve Bank of New York credit facility borrowings		61,000		-		-		61,000
Issuance of long-term debt		21,586		-		89,972		111,558
Repayments of long-term debt		(4,771)		-		(109,280)		(114,051)
Proceeds from common stock issued		7,343		-		-		7,343
Payments advanced to purchase shares		(1,000)		-		-		(1,000)
Cash dividends paid to shareholders		(1,629)		-		-		(1,629)
Other		(3,379)		226		(36,729)		(39,882)
Net cash (used in) provided by financing activities		79,150		226		(56,037)		23,339
Effect of exchange rate changes on cash		-		-		5		5
Change in cash		1,176		-		15,110		16,286
Cash at beginning of period		84		-		2,200		2,284
Cash at end of period	$	1,260	$	-	$	17,310	$	18,570

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Supplementary disclosure of cash flow information:

	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries and Eliminations	Consolidated AIG
Cash (paid) received during the nine months ended September 30, 2009 for:				
Interest:				
Third party	$ (1,972)	$ (146)	$ (2,219)	$ (4,337)
Intercompany	$ -	$ (147)	$ 147	$ -
Taxes:				
Income tax authorities	$ 1,143	$ -	$ (1,162)	$ (19)
Intercompany	$ 378	$ (12)	$ (366)	$ -
Cash (paid) received during the nine months ended September 30, 2008 for:				
Interest:				
Third party	$ (1,301)	$ (154)	$ (3,498)	$ (4,953)
Intercompany	$ (2)	$ (83)	$ 85	$ -
Taxes:				
Income tax authorities	$ 1,305	$ -	$ (1,867)	$ (562)
Intercompany	$ (1,396)	$ -	$ 1,396	$ -

American International Group, Inc. (As Guarantor) supplementary disclosure of non-cash activities:

Nine Months Ended September 30, *(in millions)*	2009	2008
Intercompany non-cash financing/investing activities:		
Settlement of repurchase agreement with loan receivable	$ -	$ 3,160
Capital contributions in the form of bonds	$ 2,698	$ 3,160
Capital contributions to subsidiaries through forgiveness of loans	$ 287	$ 11,350
Other capital contributions in the form of forgiveness of payables and contribution of assets net	$ 1,900	$ -

AIGLH supplementary disclosure of non-cash activities:

Nine Months Ended September 30, *(in millions)*	2009	2008
Intercompany non-cash financing/investing activities:		
Loans receivable forgiven through capital contributions	$ -	$ 13,000
Other capital contributions in the form of forgiveness of payables and contribution of assets net	$ -	$ 1,380

During the third quarter of 2009, AIG made certain revisions to the American International Group, Inc. (as Guarantor) Condensed Statement of Cash Flows, primarily relating to the effect of reclassifying dividend income received from consolidated subsidiaries. Accordingly, AIG revised the previous period presented to conform to the revised presentation. There was no effect on the Consolidated Statement of Cash Flows or ending cash balances.

85

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The revisions and their effect on the American International Group, Inc. (as Guarantor) Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2008 were as follows:

(in millions)	Originally Reported September 30, 2008	Revisions	As Revised
Cash flows provided by (used in) operating activities	$ (238)	$ 2,224	$ 1,986
Cash flows provided by (used in) investing activities	(77,736)	(2,224)	(79,960)
Cash flows provided by (used in) financing activities	79,150	-	79,150

During the third quarter of 2009, AIG made certain revisions to the AIGLH Condensed Statement of Cash Flows, primarily relating to revisions for the presentation of capital contributions by AIGLH. Accordingly, AIG revised the previous period presented to conform to the revised presentation. There was no effect on the Consolidated Statement of Cash Flows or ending cash balances.

The revisions and their effect on the AIGLH Condensed Consolidating Statement of Cash Flows for the nine months ended September 30, 2008 were as follows:

(in millions)	Originally Reported September 30, 2008	Revisions	As Revised
Cash flows provided by (used in) operating activities	$ 179	$ (389)	$ (210)
Cash flows provided by (used in) investing activities	(180)	164	(16)
Cash flows provided by (used in) financing activities	-	226	226

14. Subsequent Events

On October 12, 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan) for approximately $2.15 billion to a consortium. As a result of this transaction, AIG expects to meet the criteria in the fourth quarter of 2009 for "held-for-sale" accounting with respect to Nan Shan and recognize a loss presently estimated to be $1.4 billion net of taxes in that quarter. As of September 30, 2009, Nan Shan's total assets were approximately $51.5 billion, comprised substantially of cash and investments, and total liabilities were approximately $44.9 billion, comprised principally of future policy benefits for life and accident and health insurance contracts.

AIG analyzed its assets and liabilities, including its deferred acquisition costs and the adequacy of its insurance liabilities as of September 30, 2009, before Nan Shan met the criteria to be classified as held for sale, and concluded that no impairment of assets or recognition of additional liabilities was necessary.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations is designed to provide the reader a narrative with respect to American International Group, Inc.'s (AIG's) operations, financial condition and liquidity and certain other significant matters.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG's officers and representatives may from time to time make, projections and statements which may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These projections and statements are not historical facts but instead represent only AIG's belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG's control. These projections and statements may address, among other things:

- the outcome of the completed and proposed transactions with the Federal Reserve Bank of New York (FRBNY) and the United States Department of the Treasury (Department of the Treasury);

- the number, size, terms, cost, proceeds and timing of dispositions and their potential effect on AIG's businesses, financial condition, results of operations, cash flows and liquidity (and AIG at any time and from time to time may change its plans with respect to the sale of one or more businesses);

AIG's exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets;

the separation of AIG's businesses from AIG parent company;

AIG's ability to retain and motivate its employees; and

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

87

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

- a failure of the completed transactions with the FRBNY or the Department of the Treasury to achieve their desired objectives;
- a failure to complete the proposed transactions with the FRBNY;
- developments in global credit markets; and
- such other factors as discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations and in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q, in Part II, Item 1A. Risk Factors of AIG's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009, and in Part I, Item 1A. Risk Factors of the Annual Report on Form 10-K for the year ended December 31, 2008.

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

In addition to reviewing AIG's results for the three- and nine-month periods ended September 30, 2009, this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) supplements and updates the information and discussion included in the Annual Report on Form 10-K of AIG for the year ended December 31, 2008, including the Form 10-K/A (Amendment No. 1) filed on April 30, 2009 (the 2008 Form 10-K), and the revised financial information reflecting the adoption of the accounting standard related to noncontrolling interests in consolidated financial statements, included in AIG's Current Report on Form 8-K filed on June 29, 2009 (collectively, the 2008 Financial Statements), to reflect developments in or affecting AIG's business to date during 2009.

Throughout this MD&A, AIG presents its operations in the way it believes will be most meaningful. Statutory underwriting profit (loss) is presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG's insurance competitors. AIG also uses cross-references to additional information included in this Quarterly Report on Form 10-Q and in the 2008 Form 10-K to assist readers seeking related information on a particular subject.

Overview

AIG identifies its operating segments by product line, consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Through these operating segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions.

AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. AIG's Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services to institutions and individuals.

Consideration of AIG's Ability to Continue as a Going Concern

In the 2008 Form 10-K, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months. At that time, the United States government issued the following statement referring to the March 2009 agreements in principle and other transactions they expected to

Explanation of Responses:

undertake with AIG (many of which were subsequently undertaken) to strengthen its capital position, enhance its liquidity, reduce its borrowing costs and facilitate AIG's asset disposition program.

> "The steps announced today provide tangible evidence of the U.S. government's commitment to the orderly restructuring of AIG over time in the face of continuing market dislocations and economic deterioration. Orderly restructuring is essential to AIG's repayment of the support it has received from U.S. taxpayers and to preserving financial stability. The U.S. government is committed to continuing to work with AIG to maintain its ability to meet its obligations as they come due."

In connection with the preparation of this Quarterly Report on Form 10-Q, management assessed whether AIG had the ability to continue as a going concern. In making this assessment, AIG considered:

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

- AIG's liquidity-related actions and plans to stabilize its businesses and repay the debt outstanding under the facility (the FRBNY Facility) provided by the FRBNY under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Agreement), between AIG and the FRBNY;

- The level of AIG's realized and unrealized losses and the negative impact of these losses in shareholders' equity and on the capital levels of AIG's insurance subsidiaries;

- The substantial resolution of the liquidity issues surrounding the multi-sector super senior credit default swap portfolio of AIG Financial Products Corp. and AIG Trading Group, Inc. and their respective subsidiaries (collectively, AIGFP) and the U.S. securities lending program;

- The additional capital provided or committed through the AIG Series F Preferred Stock to AIG by the Department of the Treasury;

- The proposed transactions contemplated by the Purchase Agreement, dated as of June 25, 2009, among AIG, American International Reinsurance Company, Limited (AIRCO) and the FRBNY (the AIA Purchase Agreement) and the Purchase Agreement, dated as of June 25, 2009, between AIG and the FRBNY (the ALICO Purchase Agreement);

- The planned sales of significant subsidiaries;

- The continuing liquidity issues in certain of AIG's businesses and AIG's actions to address such issues; and

- The substantial risks to which AIG is subject.

See Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2008 Form 10-K, Notes 1 and 8 to the Consolidated Financial Statements and the discussion below for further details on these items.

In considering these items, management made significant judgments and estimates with respect to the potentially adverse financial and liquidity effects of AIG's risks and uncertainties. Management also assessed other items and risks arising in AIG's businesses and made reasonable judgments and estimates with respect thereto. After consideration, management believes that it will have adequate liquidity to finance and operate AIG's businesses and continue as a going concern for at least the next twelve months.

It is possible that the actual outcome of one or more of management's plans could be materially different or that one or more of management's significant judgments or estimates about the potential effects of the risks and uncertainties could prove to be materially incorrect or that the proposed transactions discussed below are not consummated. If one or more of these possible outcomes is realized, AIG may need additional U.S. government support to meet its obligations as they come due. If additional support is not available in such circumstances, there could be substantial doubt about AIG's ability to operate as a going concern.

Capital Resources and Liquidity

Liquidity

At October 28, 2009, AIG had outstanding net borrowings under the FRBNY Facility of $41.7 billion, with a remaining borrowing capacity of $18.3 billion, and accrued compounding interest and fees of $5.2 billion. Net borrowings increased $5.9 billion from September 30, 2009 primarily due to AIG's secured loan of $2 billion to International Lease Finance Corporation (ILFC) that permitted ILFC to repay a maturing bank facility, and the repayment of approximately $4.9 billion in commercial paper maturities under the CPFF, which had the effect of unencumbering certain assets securing such commercial paper. The remaining amount outstanding under the CPFF after the October 2009 repayments is approximately $5.8 billion, which includes $2.0 billion for AIG Funding, Inc. (AIG Funding), $2.7 billion for Curzon Funding LLC, and $1.1 billion for Nightingale Finance LLC. In January 2010, AIG will assess whether to borrow additional funds under the FRBNY Facility in order to repay the remaining amounts outstanding under the CPFF, taking into account availability of other sources of funding.

The net borrowing amounts shown at September 30, 2009 and October 28, 2009 were reduced by approximately $1.6 billion drawn under the Department of the Treasury Commitment, but which had not yet been utilized, and are more fully described in the summary of drawdown activity under the Department of the Treasury Commitment shown below. In addition, the net borrowings as of these dates were further reduced by $1.6 billion due to loans to AIG from AGF. AIG expects that these loans will be repaid to support AGF's liquidity as needed.

Net borrowings outstanding and remaining available amount that can be borrowed under the FRBNY Facility were as follows:

(in millions)	Inception Through December 31, 2008	Inception Through September 30, 2009	Increase (Decrease)
Net borrowings:			
Loans to AIGFP for collateral postings, GIA and other debt maturities	$ 46,997	**$ 49,347**	$ 2,350
AIGFP repayments to AIG	(4,093)	**(8,441)**	(4,348)
Capital contributions and loans to insurance companies[(a)]	20,850	**23,245**	2,395
Repayment of obligations to securities lending program	3,160	**3,160**	-
Repayment of intercompany loans	1,528	**1,528**	-
Contributions to AIGCFG subsidiaries[(b)]	1,672	**1,242**	(430)
Loans to ILFC	-	**1,700**	1,700
Debt payments	2,109	**3,760**	1,651
Funding of equity interest in ML III	5,000	**5,000**	-
Repayment from the proceeds of the issuance of Series D Preferred Stock and common stock warrant	(40,000)	**(40,000)**	-
Other[(c)]	(423)	**(4,741)**	(4,318)
Net borrowings	36,800	**35,800**	(1,000)
Total FRBNY Facility	60,000	**60,000**	-
Remaining available amount	23,200	**24,200**	1,000
Net borrowings	36,800	**35,800**	(1,000)
Accrued compounding interest and fees[(d)]	3,631	**5,209**	1,578
Total balance outstanding	$ 40,431	**$ 41,009**	$ 578

(a)

Includes securities lending activities.

(b)

Includes repayments and sales of subsidiaries.

(c)

Includes repayments with proceeds from the CPFF, tax refunds, loans to AIG from AGF discussed above and drawdowns under the Department of the Treasury Commitment, which had not yet been utilized.

(d)

Excludes interest payable of $8 million and $5 million at December 31, 2008 and September 30, 2009, respectively, which was included in Other liabilities.

On April 17, 2009, AIG entered into a Securities Purchase Agreement with the Department of the Treasury, pursuant to which the Department of the Treasury will provide an amount up to $29.835 billion (the Department of the Treasury Commitment) in exchange for increases in the liquidation preference of AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the AIG Series F Preferred Stock), so long as (i) AIG is not a debtor in a pending case under Title 11 of the United States Code; and (ii) the AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury (Trust) (or any successor entity established for the sole benefit of the United States Treasury) and the Department of the Treasury, in the aggregate, "beneficially own" more than 50 percent of the aggregate voting power of AIG's voting securities. Upon drawings under this commitment, the liquidation preference of the AIG Series F Preferred Stock increases proportionately.

A summary of drawdown activity and available amount under the Department of the Treasury Commitment were as follows:

(in millions)		**Inception Through September 30, 2009**
Drawdown No.1 on May 13, 2009[(a)]	$	1,150
Drawdown No.2 on August 13, 2009[(b)]		2,056
Total drawdowns		3,206
Original availability under commitment		29,835
Less: Total drawdowns		(3,206)
Remaining available amount at September 30, 2009	$	26,629

(a) *Represents a capital contribution to Domestic Life & Retirement Services companies.*

(b) *Represents UGC related restructuring transactions and a pending intercompany purchase of ILFC common shares. As of October 28, 2009, approximately $1.6 billion of the $2.056 billion received by AIG was temporarily utilized to repay the FRBNY Facility.*

On November 6, 2009, AIG delivered a notice of an additional drawdown of approximately $2.1 billion under the Department of the Treasury Commitment related primarily to the intercompany purchase of ILFC common shares. AIG expects to receive the funds on November 13, 2009.

Additional details regarding liquidity sources are included in Liquidity of Parent and Subsidiaries below.

Transactions Proposed to be Completed with the FRBNY

AIA Purchase Agreement

On June 25, 2009, AIG and AIRCO entered into the AIA Purchase Agreement with the FRBNY pursuant to which the FRBNY will purchase preferred equity interests in a newly formed special purpose vehicle in exchange for a reduction in the outstanding balance of the FRBNY Facility and the maximum amount available to be borrowed thereunder equal to the liquidation preference of the preferred equity, which will be $16 billion, provided the maximum amount available under the FRBNY Facility will not be less than $25 billion as a result of such reduction.

ALICO Purchase Agreement

On June 25, 2009, AIG entered into the ALICO Purchase Agreement with the FRBNY pursuant to which the FRBNY will purchase preferred equity interests in a newly formed special purpose vehicle in exchange for a reduction in the outstanding balance of the FRBNY Facility and the maximum amount available to be borrowed thereunder equal to the liquidation preference of the preferred equity, which will be $9 billion, provided the maximum amount available under the FRBNY Facility will not be less than $25 billion as a result of such reduction.

Amortization of Prepaid Commitment Asset

Any permanent reduction in the FRBNY Facility will result in accelerated amortization of a portion of the prepaid commitment asset. Therefore, AIG anticipates that the consummation of each of the AIA Purchase Agreement and

91

Table of Contents

the ALICO Purchase Agreement will result in accelerated amortization of the prepaid commitment asset at the time that the senior interests are transferred to the FRBNY, currently expected to occur in the fourth quarter of 2009. Acceleration of the amortization will result in a pre-tax charge to earnings which AIG expects to aggregate to approximately $5 billion.

Life Insurance Securitizations

On March 2, 2009, AIG and the Board of Governors of the Federal Reserve System announced their intent to enter into transactions pursuant to which the FRBNY will purchase embedded value securitization notes issued by newly-formed SPVs to be repaid with the net cash flows from designated blocks of existing life insurance policies. The proceeds of the notes would be applied in settlement of a portion of the outstanding balance of the FRBNY Facility and would reduce the maximum amount to be borrowed under the FRBNY Facility (provided the maximum amount available thereunder will not be less than $25 billion as a result of such reduction). The amount of the FRBNY Facility reduction will be based on the proceeds received and will also result in accelerated amortization of a portion of the prepaid commitment asset. The SPVs are expected to be consolidated by AIG.

See Note 1 to the Consolidated Financial Statements for further information on these transactions and Note 8 to the Consolidated Financial Statements for information on additional transactions completed in 2009.

AIG's Strategy for Stabilization and Repayment of its Obligations as They Come Due

Future Cash Requirements

AIG expects that the repayment of future debt maturities will represent its primary use of financing cash flows.

The following table shows the maturing debt of AIG and its subsidiaries for the next four quarters:

(in millions)	Fourth Quarter 2009	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Total
AIG	$ 1,000	$ 888	$ -	$ 500	$ 2,388
AIG MIP	-	500	-	933	1,433
AIGFP	1,580	915	385	275	3,155
ILFC	3,049	738	1,476	2,070	7,333
AGF[(a)(b)]	1,661	723	589	5,192	8,165
Other subsidiaries	353	56	224	78	711
Total	$ 7,643	$ 3,820	$ 2,674	$ 9,048	$ 23,185

(a) *American General Finance, Inc.*

(b) *On July 9, 2009, AGF converted the $2.45 billion of loans that AGF had previously drawn on its 364-Day Syndicated Facility into one-year term loans. AIG has provided a capital support agreement for the benefit of the lenders of these termed-out loans, which must be repaid by July 9, 2010.*

Debt maturities for the Matched Investment Program (MIP) are expected to be funded through cash flows generated from invested assets (principal and interest) as well as the sale or financing of the asset portfolios in the program. Approximately $2.3 billion of AIGFP's debt maturities through September 30, 2010 are fully collateralized with assets backing the corresponding liabilities.

In addition to these cash requirements, at October 28, 2009, AIG affiliates had $5.8 billion of commercial paper outstanding under the CPFF, all of which matures in January 2010, including $2.0 billion issued by AIG Funding. AIG Funding intends to repay this maturing commercial paper in January 2010, which could lead to an increase in borrowings under the FRBNY Facility.

AIG expects to meet these obligations primarily through the cash flows from, and the disposition of, assets supporting these obligations as well as through borrowings from the FRBNY Facility. In addition, AIG also expects to

Table of Contents

collect dividends, distributions and other payments from certain subsidiaries to fund payments on its obligations. Additional liquidity is also available under the Department of Treasury Commitment.

In the first nine months of 2009, AIG made capital contributions of $2.4 billion to certain of its Domestic Life Insurance & Retirement Services companies. Approximately $1.2 billion of this amount was funded through drawdowns under the Department of the Treasury Commitment. If a substantial portion of the Domestic Life Insurance & Retirement Services bond portfolio diminishes significantly in value or suffers adverse credit events, AIG may need to provide additional capital support for these operations.

AIG made capital contributions of $641 million to its Commercial Insurance companies in the first six months of 2009, all of which was returned as a dividend to AIG in July 2009. In addition, in connection with the sale by a Commercial Insurance subsidiary of a portion of its common stock of Transatlantic Holdings, Inc. (Transatlantic), AIG made a capital contribution of $91 million in the second quarter of 2009 to that company.

AIG also made a $600 million capital contribution to AGF (through AIG Capital Corporation) during the first nine months of 2009, and AGF loaned $1.6 billion to AIG parent under demand notes.

AIG has developed certain plans (described below), some of which have already been implemented, to provide stability to its businesses and to provide for the timely repayment of the FRBNY Facility; other plans are still being formulated.

Asset Disposition Plan

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

Sales of Businesses and Specific Asset Dispositions

Sales of Businesses

Dispositions of certain businesses will be subject to regulatory approval. Proceeds from these dispositions, to the extent they do not represent capital of AIG's insurance subsidiaries required for regulatory or ratings purposes, are contractually required to be applied toward the repayment of the FRBNY Facility as mandatory prepayments.

During the first nine months of 2009 and through October 30, 2009, AIG entered into agreements to sell or completed the sale of operations and assets, excluding AIGFP assets, that had aggregate assets and liabilities with carrying values of $86.3 billion and $69.2 billion, respectively, at September 30, 2009 or the date of sale or in the case of Transatlantic, deconsolidation. These transactions are expected to generate approximately $5.6 billion of aggregate net cash proceeds that will be available to repay outstanding borrowings and reduce the amount of the FRBNY Facility, after taking into account taxes, transaction expenses, settlement of intercompany loan facilities, and capital required to be retained for regulatory or ratings purposes. Gains and losses recorded in connection with the dispositions of businesses include estimates that are subject to subsequent adjustment. Based on the transactions thus far, AIG does not believe that such adjustments will be material to future results of operations or cash flows.

These transactions included the following:

On May 28, 2009, AIG completed the sale of its headquarters building in Tokyo for approximately $1.2 billion in cash. Due to AIG's continued involvement as a lessee, primarily in the form of a lease deposit, through 2011, the sale is accounted for as a financing arrangement with any gain deferred until the expiration of AIG's lease in early 2011.

On June 10, 2009, AIG closed a public offering of 29.9 million shares of Transatlantic common stock owned by AIG for aggregate proceeds of $1.1 billion. At the close of the public offering, AIG retained 13.9 percent of Transatlantic's outstanding shares of common stock. As a result, AIG deconsolidated Transatlantic, which resulted in a $1.4 billion reduction in Noncontrolling interest, a component of Total equity.

93

Table of Contents

On July 1, 2009, AIG closed the sale of its U.S. auto insurance business, 21st Century Insurance Group (21st Century). This operation had total assets and liabilities with carrying values of $5.7 billion and $3.4 billion, respectively, at June 30, 2009. Aggregate proceeds from the sale of this business, including proceeds applied to repay intercompany loan facilities, were $1.9 billion.

On July 28, 2009, AIG completed the sale of a majority of the U.S. life insurance premium finance business of AIG Credit Corp. and A.I. Credit Consumer Discount Company (A.I. Credit), with a carrying value of $941.3 million at that date, for $680 million in cash, including $230 million held in escrow, and an additional $61.2 million if future certain conditions are met.

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party institutional asset management business for total consideration consisting of a cash payment determined at closing based on the net assets of the business being sold plus additional future contingent consideration and a continued share of carried interest.

Sale of Nan Shan

On October 12, 2009, AIG entered into an agreement to sell its 97.57 percent share of Nan Shan Life Insurance Company, Ltd. (Nan Shan) for approximately $2.15 billion to a consortium. As a result of this transaction, AIG expects to meet the criteria in the fourth quarter of 2009 for "held-for-sale" accounting with respect to Nan Shan and recognize a loss presently estimated to be $1.4 billion net of taxes in that quarter. AIG analyzed its assets and liabilities, including its deferred acquisition costs and the adequacy of its insurance liabilities as of September 30, 2009, before Nan Shan met the criteria to be classified as held for sale, and concluded that no impairment of assets or recognition of additional liabilities was necessary.

AGF Portfolio Sales and Securitization Transaction

During the first nine months of 2009, AGF received proceeds of $1.7 billion from real estate loan portfolio sales. In addition, on July 30, 2009, AGF issued mortgage-backed certificates in a private securitization transaction of certain AGF real estate loans and received initial cash proceeds of $967 million.

AIGFP Wind-down

AIGFP is engaged in a multi-step process of unwinding its businesses and portfolios. In connection with that process, certain assets have been sold, or are under contract to be sold. The proceeds from these sales will be used to fund AIGFP's wind-down and are not included in the amounts described above under Sales of Businesses. The FRBNY has waived the requirement under the FRBNY Credit Agreement that the proceeds of these specific pending sales be applied as a mandatory prepayment under the FRBNY Facility, which would result in a permanent reduction of the FRBNY's commitment to lend to AIG. Instead, the FRBNY has given AIGFP permission to retain the proceeds of these completed sales, and has required that such proceeds received from certain future sales be used to voluntarily prepay the FRBNY Facility, with the amounts prepaid available for future reborrowing subject to the terms of the FRBNY Facility. AIGFP is also opportunistically terminating contracts. AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with AIG's affiliated businesses. Due to the long-term duration of AIGFP's derivative contracts and the complexity of AIGFP's portfolio, AIG expects that an orderly wind-down of AIGFP will take a substantial period of time. The cost of executing the wind-down will depend on many factors, many of which are not within AIG's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades.

On August 11, 2009, AIGFP completed the sale of its energy and infrastructure investment assets, realizing aggregate net proceeds of $619 million for the nine-month period ended September 30, 2009.

AIG continually evaluates overall market conditions, performance of businesses that are for sale, and market and business performance of competitors and likely bidders for these assets. This evaluation informs decision-making about the timing and process of putting businesses up for sale. Depending on market and business conditions, as

Explanation of Responses:

noted above, AIG can modify its sales approach to maximize value for AIG and the U.S. taxpayers in the disposition process. Such a modification could result in the sale of additional or other assets.

Liquidity of Parent and Subsidiaries

Since August 2009, AIG's liquidity position has remained relatively stable. See Item 1A. Risk Factors in the 2008 Form 10-K for a discussion of risks related to liquidity.

AIG (Parent)

AIG Parent had the following sources of liquidity:

	As of	
(In millions)	**September 30, 2009**	**October 28, 2009**
Available borrowing under the FRBNY Facility	$ 24,200	$ 18,300
Available commercial paper borrowings under the CPFF	3,492	4,872
Cash and short-term investments	936	359
Available capacity under the Department of the Treasury Commitment	26,629	26,629
Total	$ 55,257	$ 50,160

AIG believes that it has sufficient liquidity at the parent level to meet its obligations through at least the next twelve months. However, no assurance can be given that AIG's cash needs will not exceed projected amounts. Additional collateral calls at AIGFP, a further downgrade of AIG's credit ratings or unexpected capital or liquidity needs of AIG's subsidiaries may result in significant additional cash needs or loss of some sources of liquidity or both.

Since the fourth quarter of 2008, AIG has not had access to its traditional sources of long-term or short-term financing through the public debt markets. While no assurance can be given that AIG will be able to access these markets again, AIG continually evaluates its ability to access the capital markets.

Historically AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG's current financial situation, certain of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG. As a result, AIG has been dependent on the FRBNY Facility, the CPFF and other transactions with the FRBNY and the Department of the Treasury as its primary sources of liquidity. Primary uses of cash flow are for debt service and subsidiary funding. In the nine-month period ended September 30, 2009, AIG parent collected $1.2 billion in dividends and other payments from subsidiaries (primarily from insurance company subsidiaries), and retired $381 million of debt, excluding MIP and Series AIGFP debt. Excluding MIP and Series AIGFP debt, AIG parent made interest payments totaling $1.4 billion, and made $2.6 billion in net capital contributions to subsidiaries in the nine months ended September 30, 2009. In addition, during the nine months ended September 30, 2009, AIG parent made loans totaling $1.2 billion to wholly owned subsidiaries, which in turn principally were used to make capital contributions to insurance companies.

AIG parent traditionally funded a portion of its short-term working capital needs through commercial paper issued by AIG Funding. Since October 2008, all commercial paper issuance for AIG Funding has been through the CPFF program. AIG Funding was accepted into the CPFF with a total borrowing limit of $6.9 billion, and had approximately $3.4 billion and $2.0 billion outstanding at September 30, 2009 and October 28, 2009, respectively. All commercial paper outstanding for AIG Funding as of these dates was issued under the CPFF. As of September 30, 2009 and October 28, 2009, AIG Funding's commercial paper program had average maturities of 23 days and 86 days, respectively. The Board of Governors of the Federal Reserve System has extended the CPFF program until February 1, 2010, with the maximum final maturity of 90 days from that date. If AIG's short-term ratings are downgraded, AIG may lose access to the CPFF before the final maturity. If AIG loses access to the CPFF, it would be required to find other sources to fund the maturing commercial paper.

AIG expects to use proceeds from the repayment of intercompany debt received in connection with the sales of assets to fund maturing commercial paper.

Table of Contents

The consolidated U.S. members deferred tax asset for net operating loss and tax credit carryforwards and valuation allowance are maintained at AIG Parent and are not allocated to its subsidiaries. As the consolidated net operating losses and other tax attribute carryforwards are utilized, the intercompany tax balance will be settled with the subsidiaries.

AIG's liquidity could also be further impaired by unforeseen significant outflows of cash. This situation may arise due to circumstances that AIG may be unable to control, such as a further reduction in asset values, a ratings downgrade, a worsening of the current economic downturn or the requirements of subsidiaries to replace capital as a consequence of catastrophe claims. Regulatory and other legal restrictions would likely limit AIG's ability to transfer funds freely, either to or from its subsidiaries.

General Insurance

AIG currently expects that its General Insurance subsidiaries will be able to continue to meet their obligations as they come due through cash from operations and, to the extent necessary, asset dispositions. One or more large catastrophes, however, may require AIG to provide additional support to the affected General Insurance operations. In addition, further downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of these subsidiaries. A downgrade in the insurer financial strength ratings of an insurance company subsidiary could result in non-renewals or cancellations by policyholders and adversely affect these companies' ability to meet their own obligations and require that AIG provide capital or liquidity support to them.

At September 30, 2009, General Insurance had liquidity in the form of cash and short-term investments of $10.5 billion. These are consolidated cash and short-term investments for a number of legal entities within General Insurance. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 95.3 percent of General Insurance total fixed income investments at September 30, 2009. Given the size and liquidity profile of AIG's General Insurance investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. AIG's asset/liability management process takes into account the expected maturity of investments and the specific nature and risk profile of liabilities. Historically, there has been no significant variation between the expected maturities of AIG's General Insurance investments and the payment of claims.

Life Insurance & Retirement Services

At September 30, 2009, Life Insurance & Retirement Services had liquidity in the form of cash and short-term investments of $35.4 billion, which management considers more than adequate to meet foreseeable liquidity needs. This unusually high level of liquidity, although considered by management to be prudent given recent market disruptions and AIG-specific issues, has resulted in reduced investment income in 2009. These are consolidated cash and short-term investments for a number of legal entities within Life Insurance & Retirement Services. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 86.7 percent of Life Insurance & Retirement Services total fixed income investments at September 30, 2009. Given the size and liquidity profile of AIG's Life Insurance & Retirement Services investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. The Life Insurance & Retirement Services subsidiaries have been able to meet liquidity needs, even during the period of higher surrenders which was experienced from mid-September 2008 through the first quarter of 2009, and expect to be able to do so in the foreseeable future. A significant increase in policy surrenders and withdrawals, which could be triggered by a variety of factors, including AIG specific concerns, could result in a substantial liquidity strain. Other potential events causing a liquidity strain could include economic collapse of a nation or region significant to Life Insurance & Retirement Services operations, nationalization, catastrophic terrorist acts, pandemics or other economic or political upheaval.

Table of Contents

Foreign Life Insurance Companies

AIG's Foreign Life Insurance companies (including ALICO) had significant capital needs following publicity of AIG parent's liquidity issues, related credit ratings downgrades and the decline in the equity markets in 2008. During the nine months ended September 30, 2009, AIG provided funding of $300 million to a subsidiary within the Foreign Life Insurance companies.

AIG believes that its Foreign Life Insurance subsidiaries currently have adequate capital to support their business plans. However, to the extent there are future declines in the investment portfolios of the Foreign Life Insurance companies AIG may need to lend or contribute additional capital to these companies.

Domestic Life Insurance and Domestic Retirement Services Companies

During the nine months ended September 30, 2009, AIG contributed capital totaling $2.4 billion to certain of its Domestic Life Insurance and Domestic Retirement Services subsidiaries (of which $165 million was retained in the Domestic Life Insurance holding company and not contributed to the operating companies) to replace a portion of the capital lost as a result of net realized capital losses (primarily resulting from other-than-temporary impairment charges) and other investment-related items. Of this amount, $1.2 billion was funded by drawdowns under the Department of the Treasury Commitment in May 2009. Further capital contributions may be required to maintain desired levels of capital to the extent there are future declines in the investment portfolios of the Domestic Life Insurance and Domestic Retirement Services companies.

The most significant potential liquidity needs of AIG's Domestic Life Insurance and Domestic Retirement Services companies are the funding of surrenders and withdrawals. A substantial increase in these needs could place stress on the liquidity of these companies. However, management believes that these companies have sufficient short-term liquidity to meet such demands.

Financial Services

AIG's major Financial Services operating subsidiaries consist of ILFC, AIGFP, AGF and AIG Consumer Finance Group, Inc. (AIGCFG). Traditional sources of funds considered in meeting the liquidity needs of these operations are generally no longer available. These sources included issuances of guaranteed investment agreements (GIAs), issuance of long- and short-term debt, issuance of commercial paper, bank loans and bank credit facilities. However, ILFC has been able to finance Airbus aircraft purchases under its 2004 Export Credit Agency (ECA) Facility, as further described below, and AIGCFG has been able to retain a significant portion of customer deposits, providing a measure of liquidity.

ILFC

Prior to September 2008, ILFC's traditional sources of liquidity had been collections of aircraft lease payments, borrowings in the public debt markets, borrowings under its 1999 and 2004 ECA Facilities to fund aircraft purchases, proceeds of aircraft sales and income from third parties for fleet management services.

During the first nine months of 2009, ILFC was unable to borrow in the public debt markets and, due to downgrades in its short-term credit rating, lost access to the CPFF and therefore borrowed $1.7 billion from AIG Funding to repay its maturing debt and other contractual obligations. In addition, ILFC borrowed approximately $161 million through secured financing arrangements. ILFC is currently pursuing additional secured financings from banks. ILFC had the capacity under its present facilities and indentures to enter into secured financing of approximately $5.0 billion (or more through subsidiaries that qualify as non-restricted subsidiaries under ILFC's indentures, subject to the receipt of any required consents under the FRBNY Facility and under its bank facilities and terms loans). If ILFC does not receive sufficient secured financing, AIG expects that ILFC's current borrowings and future cash flows from operations, which may include aircraft sales, may be inadequate to permit ILFC to meet its existing obligations. Should sales of aircraft be required, ILFC could incur losses on those sales and may incur impairment charges on its aircraft, depending on, among other things, the specific aircraft sold and market conditions at the time of sale. AIG intends to provide support to ILFC through November 15, 2010 to the extent that secured financing, aircraft sales and other sources of funds are not sufficient.

Under its current long-term debt ratings, ILFC needs written consent from the security trustee of its 2004 ECA Facility before it can fund Airbus aircraft deliveries under the facility. As of October 30, 2009, ILFC had approximately $600 million available under the 2004 ECA Facility to finance its Airbus aircraft purchases through June 2010. ILFC financed 25 aircraft under the 2004 ECA Facility during the first nine months of 2009, 19 of which required written consent, which was obtained. ILFC's current credit ratings also require segregation of security deposits and maintenance reserves for aircraft funded under both its 1999 and 2004 ECA Facilities into separate accounts. As a result of Moody's downgrade of ILFC's long-term debt ratings to Baa3 on July 31, 2009, in addition to segregation of security deposits and maintenance reserves, under the 2004 ECA Facility, ILFC is required to (i) segregate subsequent rental payments received into the separate accounts; (ii) cede control of the segregated accounts to the security trustee of the 2004 ECA Facility; and (iii) file individual mortgages on the aircraft funded under the facility in the respective local jurisdictions in which its lessees operate. At September 30, 2009, ILFC had segregated security deposits, maintenance reserves and rental payments aggregating $290 million related to such aircraft, of which $229 million related to the 2004 ECA Facility. The segregated amounts will fluctuate with changes in deposits, maintenance reserves and debt maturities related to the aircraft funded under the facilities. Further downgrades by S&P and Moody's could impose additional restrictions under the 1999 ECA Facility, including the requirement to segregate rental payments and to receive prior consent to withdraw funds from the segregated accounts.

On October 13, 2009, ILFC entered into two term loan agreements (the Term Loans) with AIG Funding comprising a new $2.0 billion credit agreement and a $1.7 billion amended and restated credit agreement. The Term Loans are secured by a portfolio of aircraft and all related equipment and leases. ILFC used the proceeds from the $2.0 billion loan to repay in full its obligations under its $2.0 billion revolving credit facility that matured on October 15, 2009. The second credit agreement amended and restated the two demand note agreements aggregating $1.7 billion that ILFC entered into in March 2009 with AIG Funding, including extending the maturity date of such demand notes. Both Term Loans mature on September 13, 2013 and bear interest at 3-month LIBOR plus 3.025%. The Term Loans are due in full at maturity with no scheduled amortization. The funds for the Term Loans were provided to AIG Funding through the FRBNY Facility. As a condition of the FRBNY approving the Term Loans, ILFC entered into agreements to guarantee the repayment of AIG's obligations under the FRBNY Credit Agreement up to an amount equal to the aggregate outstanding balance of the Term Loans.

As a result of the Term Loans, ILFC's current capacity under its present facilities and indentures to enter into secured financing is approximately $1.3 billion.

AIGFP

Prior to September 2008, AIGFP had historically funded its operations through the issuance of notes and bonds, GIA borrowings, other structured financing transactions and repurchase agreements.

In the second half of 2008, AIGFP's access to its traditional sources of liquidity was significantly reduced and it relied on AIG parent to meet most of its liquidity needs. AIGFP's asset backed commercial paper conduit, Curzon Funding LLC, was accepted into the CPFF with a total borrowing limit of $7.2 billion, and had approximately $2.7 billion outstanding at October 28, 2009. Separately, a structured investment vehicle sponsored, but not consolidated, by AIGFP, Nightingale Finance LLC, was also accepted into the CPFF with a borrowing limit of $1.1 billion. As of October 28, 2009, this vehicle had issued approximately $1.1 billion under the CPFF. If AIG's short-term ratings are downgraded, these entities may lose access to the CPFF prior to the maturity of the commercial paper and they or AIGFP would be required to find other sources to fund the maturing commercial paper.

The following table presents a roll forward of the amount of collateral posted by AIGFP:

Nine Months Ended September 30, 2009 *(in millions)*	**Collateral Posted as of December 31, 2008**	**Additional Postings, Netted by Counterparty**	**Collateral Returned by Counterparties**	**Collateral Posted as of September 30, 2009**
Collateralized GIAs and other borrowings	$ 9,401	$ 336	$ 2,748	$ 6,989
Derivatives (including super senior credit default swaps)	22,791	1,584	13,059	11,316
Total	$ 32,192	$ 1,920	$ 15,807	$ 18,305

98

AGF

Prior to September 2008, AGF's traditional source of liquidity had been collections of customer receivables and borrowings in the public markets.

With its continued inability to access traditional capital market sources, AGF anticipates that its primary source of funds to support its operations and repay its obligations will be customer receivable collections. In order to improve cash flow from operations, AGF has significantly limited its lending activities and aggressively managed its expenses. Since September 2008 and through October 30, 2009, AGF's alternative funding sources have included proceeds of $1.7 billion from real estate loan portfolio sales and initial cash proceeds of $967 million from a real estate loan securitization. AGF is considering additional sales and/or securitizations of its finance receivables. AIG intends to provide support to AGF through November 15, 2010 to the extent that asset sales, securitizations and/or other transactions are not sufficient. AIG made a $600 million capital contribution to AGF (through AIG Capital Corporation) during the first nine months of 2009, and AGF loaned $1.6 billion to AIG parent under demand notes. In July 2009, AGF converted the $2.45 billion of loans that AGF had previously drawn on its 364-day Syndicated Facility into one-year term loans. These termed-out loans must be repaid by July 9, 2010. AIG provides a capital support agreement to AGF in connection with these loans.

AIGCFG

AIG believes that the funding needs of AIGCFG have stabilized. It is possible that renewed customer and counterparty concerns could increase AIGCFG's liquidity needs in 2009. During the first nine months of 2009 and through October 30, 2009, AIG has completed the sale of certain AIGCFG businesses in China, Thailand, the Philippines, Mexico and Hong Kong.

Asset Management

Asset Management's principal cash requirements are to fund general working capital needs, investment commitments related to proprietary investments in private equity and real estate as well as any liquidity mismatches in the Spread-Based Investment business. Management continues to work closely with partners and counterparties to manage future funding requirements on proprietary investments through various strategies including through relinquishing rights in certain properties and funds, the restructuring of investment relationships and sales to third parties.

Cash requirements related to Institutional Asset Management are funded through general operating cash flows from management and performance fees, proceeds from events in underlying funds (capital calls to third parties, sales of portfolio companies, etc.) as well as intercompany funding provided by AIG. Consequently, Institutional Asset Management's ability to fund certain of its needs may depend on advances from AIG under various intercompany borrowing facilities. Restrictions on these facilities would have adverse consequences on the ability of the business to satisfy its obligations. With respect to the Global Real Estate investment management business, investing activities are also funded through third-party financing arrangements which are secured by the relevant properties.

With the announced sale of AIG's investment advisory and third party Institutional Asset Management business (excluding the Global Real Estate investment management business), AIG will no longer benefit from the management fee and carried interest cash flows from these businesses, but the sale will reduce operating costs related to AIG's asset management activities.

The Guaranteed Investment Contract (GIC) and MIP programs are in run-off. AIG expects to fund its obligations under these programs through cash flows generated from invested assets (principal and interest) as well as sales of investments, primarily fixed maturity securities. However, market illiquidity and diminished values within the investment portfolios may impair AIG's ability to sell the related program assets or sell such assets for a price adequate to settle the corresponding liabilities when they come due. In such a case, AIG parent would need to fund the obligations.

Debt

Total debt was as follows:

(in millions)	**September 30, 2009**	December 31, 2008
Debt issued by AIG:		
FRBNY Facility (secured)	**$ 41,009**	$ 40,431
Notes and bonds payable	**11,457**	11,756
Junior subordinated debt	**12,026**	11,685
Junior subordinated debt attributable to equity units	**5,880**	5,880
Loans and mortgages payable	**391**	416
MIP matched notes and bonds payable	**13,596**	14,446
Series AIGFP matched notes and bonds payable	**4,019**	4,660
Total AIG debt	**88,378**	89,274
Debt guaranteed by AIG:		
AIGFP, at fair value		
Commercial paper and other short-term debt[(a)]	**6,233**	6,802
GIAs	**9,204**	13,860
Notes and bonds payable	**3,247**	5,250
Loans and mortgages payable	**997**	2,175
Hybrid financial instrument liabilities	**1,815**	2,113
Total AIGFP debt	**21,496**	30,200
AIG Funding commercial paper[(a)]	**3,374**	6,856
AIGLH notes and bonds payable	**798**	798
Liabilities connected to trust preferred stock	**1,339**	1,415
Total debt issued or guaranteed by AIG	**115,385**	128,543
Debt not guaranteed by AIG:		
ILFC		
Commercial paper and other short-term debt[(a)]	**-**	1,748
Junior subordinated debt	**999**	999
Notes and bonds payable, ECA Facilities, bank financings and other secured financings[(b)]	**28,271**	30,047
Total ILFC debt	**29,270**	32,794
AGF		
Commercial paper and other short-term debt	**-**	188
Junior subordinated debt	**349**	349
Notes and bonds payable	**21,599**	23,089
Total AGF debt	**21,948**	23,626
AIGCFG		
Commercial paper and other short-term debt	**-**	124
Loans and mortgages payable	**908**	1,596
Total AIGCFG debt	**908**	1,720

Other subsidiaries		**285**		670
Debt of consolidated investments held through:				
AIG Investments		**519**		1,300
AIG Global Real Estate Investment		**4,389**		4,545
ALICO		**98**		-
SunAmerica		**11**		5
Total debt of consolidated investments		**5,017**		5,850
Total debt not guaranteed by AIG		**57,428**		64,660
Total debt:				
Total commercial paper and other short-term debt		**-**		613
Federal Reserve Bank of New York commercial paper funding facility		**9,607**		15,105
Total long-term debt		**163,206**		177,485
Total debt	**$**	**172,813**	$	193,203

100

Table of Contents

(a)

Includes borrowings of $6.2 billion and $3.4 billion for AIGFP (through Curzon Funding LLC, AIGFP's asset-backed commercial paper conduit) and AIG Funding, respectively, under the CPFF at September 30, 2009 and $6.8 billion, $6.6 billion and $1.7 billion, respectively, for AIGFP (through Curzon Funding LLC), AIG Funding and ILFC, respectively, under the CPFF at December 31, 2008.

(b)

Includes borrowings under the 1999 and 2004 ECA Facility of $3.1 billion and $2.4 billion at September 30, 2009 and December 31, 2008, respectively.

Long-Term Debt

A roll-forward of long-term debt, excluding debt of consolidated investments, was as follows:

Nine Months Ended September 30, 2009 *(in millions)*	**Balance at December 31, 2008**	**Issuances**	**Maturities and Repayments**	**Effect of Foreign Exchange**	**Other Non-Cash Changes***	**Balance at September 30, 2009**
AIG						
FRBNY Facility	$ 40,431	$ 20,000	$ (21,000)	$ -	$ 1,578	**$ 41,009**
Notes and bonds payable	11,756	-	(381)	117	(35)	**11,457**
Junior subordinated debt	11,685	-	-	339	2	**12,026**
Junior subordinated debt attributable to equity units	5,880	-	-	-	-	**5,880**
Loans and mortgages payable	416	-	(37)	12	-	**391**
MIP matched notes and bonds payable	14,446	-	(1,159)	7	302	**13,596**
Series AIGFP matched notes and bonds payable	4,660	-	(339)	-	(302)	**4,019**
AIGFP, at fair value						
GIAs	13,860	539	(3,117)	-	(2,078)	**9,204**
Notes and bonds payable and hybrid financial instrument liabilities	7,363	15	(2,185)	-	(131)	**5,062**
Loans and mortgages payable	2,175	-	(1,183)	-	5	**997**
AIGLH notes and bonds payable	798	-	-	-	-	**798**
Liabilities connected to trust preferred stock	1,415	-	-	-	(76)	**1,339**
ILFC notes and bonds payable, ECA Facilities, bank financings and other secured financings	30,047	1,295	(3,223)	148	4	**28,271**
ILFC junior subordinated debt	999	-	-	-	-	**999**
AGF notes and bonds payable	23,089	962	(2,622)	170	-	**21,599**
AGF junior subordinated debt	349	-	-	-	-	**349**
AIGCFG loans and mortgages payable	1,596	815	(1,528)	28	(3)	**908**
Other subsidiaries	670	-	(41)	4	(348)	**285**
Total	$ 171,635	$ 23,626	$ (36,815)	$ 825	$ (1,082)	**$ 158,189**

*

Includes $1.6 billion of accrued compounding interest and fees on the FRBNY Facility and a decline of $2.2 billion in the fair value of AIGFP debt.

101

Table of Contents

Maturities of long-term debt, excluding borrowings of consolidated investments, are as follows:

At September 30, 2009		**Remainder**			**Year Ending**			
(in millions)	**Total**	**of 2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
AIG:								
FRBNY Facility	$ 41,009	$ -	$ -	$ -	$ -	$ 41,009	$ -	$ -
Notes and bonds payable	11,457	1,000	1,350	568	27	998	-	7,514
Junior subordinated debt	12,026	-	-	-	-	-	-	12,026
Junior subordinated debt attributable to equity units	5,880	-	-	-	-	-	-	5,880
Loans and mortgages payable	391	-	-	-	342	-	-	49
MIP matched notes and bonds payable	13,596	-	2,270	3,243	2,196	919	411	4,557
Series AIGFP matched notes and bonds payable	4,019	-	39	27	56	3	-	3,894
Total AIG	88,378	1,000	3,659	3,838	2,621	42,929	411	33,920
AIGFP, at fair value:								
GIAs	9,204	423	760	285	281	276	674	6,505
Notes and bonds payable	3,247	857	526	191	670	40	97	866
Loans and mortgages payable	997	-	309	197	197	79	154	61
Hybrid financial instrument liabilities	1,815	300	244	331	85	266	136	453
Total AIGFP	15,263	1,580	1,839	1,004	1,233	661	1,061	7,885
AIGLH notes and bonds payable	798	-	500	-	-	-	-	298
Liabilities connected to trust preferred stock	1,339	-	-	-	-	-	-	1,339
ILFC*(a)*:								
Notes and bonds payable	17,897	921	4,147	4,672	3,572	3,542	1,043	-
Junior subordinated debt	999	-	-	-	-	-	-	999
ECA Facilities*(b)*	3,124	120	513	425	396	396	391	883
Bank financings and other secured financings	7,250	2,008	2,116	2,849	165	16	37	59
Total ILFC	29,270	3,049	6,776	7,946	4,133	3,954	1,471	1,941
AGF*(a)*:								
Notes and bonds payable*(c)*	21,599	1,661	6,611	3,587	2,289	2,387	484	4,580
Junior subordinated debt	349	-	-	-	-	-	-	349
Total AGF	21,948	1,661	6,611	3,587	2,289	2,387	484	4,929
AIGCFG Loans and mortgages payable*(a)*	908	353	427	33	33	32	27	3
Other subsidiaries*(a)*	285	-	3	5	8	3	7	259
Total	$ 158,189	$ 7,643	$ 19,815	$ 16,413	$ 10,317	$ 49,966	$ 3,461	$ 50,574

(a)

AIG does not guarantee these borrowings.

(b)

Reflects future minimum payment for ILFC's borrowings under the 1999 and 2004 ECA Facilities.

(c)

On July 9, 2009, AGF converted the $2.45 billion of loans that AGF had previously drawn on its 364-Day Syndicated Facility into one-year term loans. AIG has provided a capital support agreement for the benefit of the lenders of these termed-out loans, which must be repaid by July 9, 2010.

AIG (Parent Company)

AIG historically issued debt securities from time to time to meet its financing needs and those of certain of its subsidiaries, as well as to opportunistically fund the MIP. The maturities of the debt securities issued by AIG to fund the MIP are generally expected to be paid using the cash flows of assets held by AIG as part of the MIP portfolio. However, mismatches in the timing of cash inflows and outflows of the MIP, as well as shortfalls due to impairments of MIP assets, would need to be funded by AIG parent.

As of September 30, 2009, approximately $7.1 billion principal amount of senior notes were outstanding under AIG's medium-term note program, of which $3.2 billion was used for AIG's general corporate purposes, $558 million was used by AIGFP (included within "Series AIGFP matched notes and bonds payable" in the preceding tables) and $3.3 billion was used to fund the MIP. The maturity dates of these notes range from 2010 to 2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

Table of Contents

As of September 30, 2009, the equivalent of $11.8 billion of notes were outstanding under AIG's Euro medium-term note program, of which $9.8 billion were used to fund the MIP and the remainder was used for AIG's general corporate purposes. The aggregate amount outstanding includes a $1.1 billion loss resulting from foreign exchange translation into U.S. dollars related to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

AIGLH

In connection with its acquisition of AIGLH in 2001, AIG entered into arrangements with AIGLH with respect to outstanding AIGLH capital securities. In 1996, AIGLH through a trust issued capital securities to institutional investors and funded the trust with AIGLH junior subordinated debentures issued to the trust. AIGLH guaranteed payments to the holders of capital securities only to the extent (i) the trust received payments on the debentures and (ii) these payments were available for the trust to pay to holders of capital securities. In 2001, AIG guaranteed the same payments to the holders of capital securities. Like the AIGLH guarantee, the AIG guarantee only applies to any payments actually made to the trust in respect of the debentures. If no payments are made on the debentures, AIG is not required to make any payments to the trust. AIG also guaranteed the debentures pursuant to a guarantee that is expressly subordinated to certain AIGLH senior debt securities. Under AIG's guarantee, AIG is not required to make any payments in respect of the debentures if such payment would be prohibited by the subordination provisions of the debentures. As a result, AIG will never be required to make a payment under its guarantee of the debentures for so long as AIGLH is prohibited from making a payment on the debentures.

AIGFP

Approximately $2.3 billion of AIGFP's debt maturing through September 30, 2010 is fully collateralized with assets backing the corresponding liabilities. However, mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and AIGFP's ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG parent.

ILFC

ILFC has a $4.3 billion 1999 ECA Facility that was used in connection with the purchase of 62 Airbus aircraft delivered through 2001. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.78 percent to 5.86 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At September 30, 2009, ILFC had 35 loans with a remaining principal balance of $200 million outstanding under this facility. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility.

ILFC has a similarly structured 2004 ECA Facility, which was amended in May 2009 to allow ILFC to borrow up to a maximum of $4.6 billion to fund the purchase of Airbus aircraft delivered through June 30, 2010. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a forward-looking calendar, and the interest rate is determined through a bid process. The interest rates are either LIBOR based with spreads ranging from (0.04) percent to 2.25 percent or at fixed rates ranging from 4.20 percent to 4.71 percent. At September 30, 2009, ILFC had financed 66 aircraft using approximately $4.0 billion under this facility and approximately $2.9 billion was outstanding. At September 30, 2009, the interest rate of the loans outstanding ranged from 0.74 percent to 4.71 percent. The debt is collateralized by a pledge of shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. Borrowings with respect to these facilities are included in ILFC's notes and bonds payable in the preceding table of borrowings.

At September 30, 2009, the total funded amount of ILFC's bank financings was $7.1 billion, which includes $6.5 billion of revolving credit facilities (see Revolving Credit Facilities below). The fundings mature through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.25 percent to 0.40 percent. At September 30, 2009, the interest rates ranged from 0.59 percent to 1.23 percent. AIG does not guarantee any of the debt obligations of ILFC. On October 15, 2009, ILFC repaid a $2.0 billion tranche of the revolving credit facilities when it matured, using proceeds from the Term Loans described above.

In April 2009, ILFC entered into a $100 million 90-day promissory note agreement with a supplier in connection with the purchase of an aircraft. The interest rate was fixed at an annual rate of 5.00 percent. The note was paid in full in July 2009, when it matured.

AGF

As of September 30, 2009, notes and bonds aggregating $21.6 billion were outstanding with maturity dates ranging from 2009 to 2031 at interest rates ranging from 0.40 percent to 9.00 percent. To the extent considered appropriate, AGF may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds.

AIG does not guarantee any of the debt obligations of AGF but has provided a capital support agreement for the benefit of AGF's lenders under the AGF 364-Day Syndicated Facility. Under this support agreement, AIG has agreed to cause AIG's wholly-owned subsidiary, American General Finance Corporation to maintain (1) consolidated net worth of $2.2 billion and (2) an adjusted tangible leverage ratio of less than or equal to 8 to 1 at the end of each fiscal quarter. This support agreement benefits only the lenders under the AGF 364-Day Syndicated Facility and does not benefit, and is not enforceable by, any of the other creditors of AGF. This support agreement continued for the benefit of AGF's lenders upon the conversion of the facility borrowings into one-year term loans in July 2009.

Revolving Credit Facilities

ILFC and AGF have maintained committed, unsecured revolving credit facilities listed on the table below. Both ILFC and AGF have drawn the full amount available under their revolving credit facilities. In July 2009, AIG's 364-Day Syndicated Facility expired and, in August 2009, AIG terminated its 5-Year Syndicated Facility. As a result, AIG no longer has access to any revolving credit facilities.

A summary of revolving credit facilities is as follows:

At September 30, 2009
(in millions)

Facility	**Size**	**Borrower(s)**	**Available Amount**	**Expiration**
ILFC:				
5-Year Syndicated Facility	$ 2,500	ILFC	$ -	October 2011
5-Year Syndicated Facility	2,000	ILFC	-	October 2010
5-Year Syndicated Facility	2,000	ILFC	-	October 2009[(a)]
Total ILFC	$ 6,500		$ -	
AGF:				
1-Year Term Loans	$ 2,450	American General Finance Corporation	-	July 2010[(b)]
		American General Finance, Inc.[(c)]	-	
5-Year Syndicated Facility	2,125	American General Finance Corporation	-	July 2010
Total AGF	$ 4,575		$ -	

(a) *On October 15, 2009, ILFC repaid the outstanding amount on this facility.*

(b) *On July 9, 2009, AGF converted the $2.45 billion of loans that AGF had previously drawn on its 364-Day Syndicated Facility into one-year term loans. These termed-out loans must be repaid by July 9, 2010.*

(c) *American General Finance, Inc. was an eligible borrower for up to $400 million only.*

104

Explanation of Responses:

Credit Ratings

The cost and availability of unsecured financing for AIG and its subsidiaries are generally dependent on their short-and long-term debt ratings. The following table presents the credit ratings of AIG and certain of its subsidiaries as of October 30, 2009. In parentheses, following the initial occurrence in the table of each rating, is an indication of that rating's relative rank within the agency's rating categories. That ranking refers only to the generic or major rating category and not to the modifiers appended to the rating by the rating agencies to denote relative position within such generic or major category.

	Short-Term Debt			Senior Long-Term Debt		
	Moody's	S&P	Fitch	Moody's[(a)]	S&P[(b)]	Fitch[(c)]
AIG	P-1 (1st of 3)[(f)]	A-1 (1st of 8)[(f)]	F1 (1st of 5)	A3 (3rd of 9)[(f)]	A- (3rd of 8)[(f)]	BBB (4th of 9)[(g)]
AIG Financial Products Corp.[(d)]	P-1[(f)]	A-1[(f)]	-	A3[(f)]	A-[(f)]	-
AIG Funding, Inc.[(d)]	P-1[(f)]	A-1	F1	-	-	-
ILFC	P-3 (3rd of 3)[(i)]	A-2 (2nd of 8)[(e)]	F2[(h)]	Baa3 (4th of 9)[(i)]	BBB+(4th of 8)[(e)]	BBB (4th of 9)[(h)]
American General Finance Corporation	P-3[(i)]	B (4th of 8)	-	Baa3 (4th of 9)[(i)]	BB+(5th of 8)[(f)]	BB (5th of 9)[(h)]
American General Finance, Inc.	P-3[(i)]	B (4th of 8)	-	-	-	BB (5th of 9)[(h)]

(a) *Moody's appends numerical modifiers 1, 2 and 3 to the generic rating categories to show relative position within the rating categories.*

(b) *S&P ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.*

(c) *Fitch ratings may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.*

(d) *AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding.*

(e) *Credit Watch Negative.*

(f) *Negative Outlook.*

(g) *Evolving Outlook.*

(h) *Rating Watch Negative.*

(i) *Under Review Negative.*

These credit ratings are current opinions of the rating agencies. As such, they may be changed, suspended or withdrawn at any time by the rating agencies as a result of changes in, or unavailability of, information or based on other circumstances. Ratings may also be withdrawn at AIG management's request. This discussion of ratings is not a complete list of ratings of AIG and its subsidiaries.

"Ratings triggers" have been defined by one independent rating agency to include clauses or agreements the outcome of which depends upon the level of ratings maintained by one or more rating agencies. "Ratings triggers" generally relate to events that (i) could result in the termination or limitation of credit availability, or require accelerated repayment, (ii) could result in the termination of business contracts or (iii) could require a company to post collateral for the benefit of counterparties.

A significant portion of AIGFP's GIAs, structured financing arrangements and financial derivative transactions include provisions that require AIGFP, upon a downgrade of AIG's long-term debt ratings, to post collateral or, with the consent of the counterparties, assign or repay its positions or arrange a substitute guarantee of its obligations by an obligor with higher debt ratings. Furthermore, certain downgrades of AIG's long-term senior debt ratings would permit either AIG or the counterparties to elect early termination of contracts.

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. For a discussion of the effect of a downgrade in AIG's credit ratings on AIGFP's outstanding municipal GIAs, secured funding arrangements and financial derivative transactions, see Item 1A. Risk Factors in the 2008 Form 10-K.

105

Table of Contents

Contractual Obligations

Contractual obligations in total, and by remaining maturity, are as follows:

At September 30, 2009			**Payments due by Period**			
(in millions)	**Total Payments**	**Remainder of 2009**	**2010 - 2011**	**2012 - 2013**	**2014**	**Thereafter**
Borrowings[(a)]	$ 117,180	$ 7,643	$ 36,228	$ 19,274	$ 3,461	$ 50,574
FRBNY Facility	41,009	-	-	41,009	-	-
Interest payments on borrowings	66,389	1,140	8,861	13,986	3,012	39,390
Loss reserves[(b)]	81,599	5,304	28,397	15,610	5,067	27,221
Insurance and investment contract liabilities[(c)]	621,997	19,890	39,347	47,500	22,124	493,136
GIC liabilities[(d)]	10,900	2,054	2,014	3,081	124	3,627
Aircraft purchase commitments	13,963	271	490	2,917	1,792	8,493
Other long-term obligations[(e)]	411	87	296	13	1	14
Total[(f)(g)]	$ 953,448	$ 36,389	$ 115,633	$ 143,390	$ 35,581	$ 622,455

(a) *Excludes commercial paper and borrowings incurred by consolidated investments and includes hybrid financial instrument liabilities recorded at fair value.*

(b) *Represents future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments.*

(c) *Insurance and investment contract liabilities include various investment-type products with contractually scheduled maturities, including periodic payments of a term certain nature. Insurance and investment contract liabilities also include benefit and claim liabilities, of which a significant portion represents policies and contracts that do not have stated contractual maturity dates and may not result in any future payment obligations. For these policies and contracts (i) AIG is currently not making payments until the occurrence of an insurable event, such as death or disability, (ii) payments are conditional on survivorship, or (iii) payment may occur due to a surrender or other non-scheduled event out of AIG's control. AIG has made significant assumptions to determine the estimated undiscounted cash flows of these contractual policy benefits, which assumptions include mortality, morbidity, future lapse rates, expenses, investment returns and interest crediting rates, offset by expected future deposits and premiums on inforce policies. Due to the significance of the assumptions used, the periodic amounts presented could be materially different from actual required payments. The amounts presented in this table are undiscounted and therefore exceed the future policy benefits and policyholder contract deposits included in the balance sheet.*

(d) *Represents guaranteed maturities under GICs.*

(e) *Primarily includes contracts to purchase future services and other capital expenditures.*

(f) *Does not reflect unrecognized tax benefits of $3.8 billion, the timing of which is uncertain.*

(g) *The majority of AIGFP's credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At September 30, 2009, the fair value derivative liability was $4.5 billion relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, net of amounts realized in extinguishing derivative obligations. Due to the long-term maturities of these credit default swaps, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, AIGFP has posted collateral of $3.8 billion with respect to these swaps (prior to offsets for other transactions).*

106

Off-Balance Sheet Arrangements and Commercial Commitments

Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity were as follows:

At September 30, 2009		**Amount of Commitment Expiration**				
(in millions)	**Total Amounts Committed**	**Remainder of 2009**	**2010 - 2011**	**2012 - 2013**	**2014**	**Thereafter**
Guarantees:						
Liquidity facilities[(a)]	$ 928	$ -	$ -	$ 827	$ -	$ 101
Standby letters of credit	1,284	1,100	34	19	-	131
Construction guarantees[(b)]	238	2	145	-	-	91
Guarantees of indebtedness	211	-	-	-	-	211
All other guarantees	2,173	11	46	188	49	1,879
Commitments:						
Investment commitments[(c)]	7,589	1,627	2,738	1,638	542	1,044
Commitments to extend credit	237	68	117	35	15	2
Letters of credit	264	174	89	1	-	-
Other commercial commitments[(d)]	692	44	-	-	-	648
Total[(e)]	$ 13,616	$ 3,026	$ 3,169	$ 2,708	$ 606	$ 4,107

(a) *Primarily liquidity facilities provided in connection with certain municipal swap transactions and collateralized bond obligations.*

(b) *Primarily SunAmerica construction guarantees connected to affordable housing investments.*

(c) *Includes commitments to invest in limited partnerships, private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad.*

(d) *Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The remaining pension contribution for 2009 is expected to be approximately $33 million for U.S. and non-U.S. plans.*

(e) *Does not include guarantees or other support arrangements among AIG consolidated entities.*

Arrangements with Variable Interest Entities

AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business. AIG's insurance companies are involved with VIEs primarily as passive investors in debt securities (rated and unrated) and equity interests issued by VIEs. Through its Financial Services and Asset Management operations, AIG has participated in arrangements that included designing and structuring entities (including VIEs), warehousing and managing the collateral of the entities (including VIEs), and entering into insurance transactions with VIEs. Interest holders in the VIEs 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 VIEs' interest holders.

AIG consolidates a VIE when it is the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIE's expected losses; (ii) receives a majority of the VIE's expected residual returns; or (iii) both. For a further discussion of AIG's involvement with VIEs, see Note 6 to the Consolidated Financial Statements.

Outlook

Global financial markets continued their recovery in the third quarter of 2009, as investors returned to equity and bond markets. This optimism, not yet accompanied by a robust economic recovery, produced a strong rally in bond, equity and commodity markets. Cash accumulated by investors in 2008 and early 2009 continued to flow out of short-term money market accounts and into higher yielding assets, creating investment demand in excess of available new supply in many sectors. While securitized mortgage products participated to a degree in the rally, particularly in desirable tranches of well-collateralized transactions, the commercial mortgage and equity real estate sectors continue to lag.

As AIG implements the proposed transactions with the FRBNY described in Note 1 to the Consolidated Financial Statements and executes its plans for repaying the FRBNY Facility, AIG expects to incur significant additional restructuring-related charges, such as accelerated amortization of the prepaid commitment asset and, potentially, the write-off of intangible assets. Further, if AIG continues to incur losses in its businesses, AIG may need to write off material amounts of goodwill and deferred tax assets.

On June 10, 2009, the Treasury Department issued regulations implementing the compensation limits of the American Recovery and Reinvestment Act of 2009. These regulations restrict the amount of bonus and other incentive compensation that a company may pay to certain employees. For AIG these limits apply to the five executives named in AIG's proxy statement and the next twenty highest paid employees of AIG (the Top 25). The regulations also create the Office of Special Master for TARP Executive Compensation (Special Master), which is responsible for interpreting and applying the compensation regulations. AIG is required to obtain the Special Master's approval of the compensation of the Top 25, and the compensation structure of AIG's executive officers and AIG's next 26 to 100 most highly compensated employees. On October 22, 2009, the Special Master issued a Determination Memorandum to AIG with respect to the Top 25. The Determination Memorandum places significant new restrictions on the compensation of these employees (except for the Chief Executive Officer) and the restrictions in the Determination Memorandum may impair AIG's ability to retain and motivate them. See Item 1A., Risk Factors, of Part II of this Form 10-Q for a further discussion of this risk.

Almost all of AIG's businesses have been adversely affected since March 2009 by the criticism and negative publicity that surrounded the honoring of and payment of contracts to employees of AIGFP. For a discussion of the effect that continued or renewed criticism or additional negative publicity may have on AIG, see Item 1A. Risk Factors in Part II of AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.

General Insurance

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad and constitute Commercial Insurance and the Foreign General Insurance Group. On July 27, 2009, it was announced that AIG's General Insurance subsidiaries would undergo a rebranding and would do business as Chartis, which will consist of Commercial Insurance (operating as Chartis U.S.), Foreign General Insurance (operating as Chartis International), and Private Client Group (part of Chartis U.S.).

AIG's Commercial Insurance operations have been generally successful in retaining clients, however, some clients reduced the number of lines or limits of coverage due in part to the overall state of the economy as well as concerns over AIG's financial strength. This trend of de-risking is expected to slow for the remainder of 2009 as business retention at September 30, 2009 was at its highest level since September 2008. Net premiums written improved in the third quarter of 2009 compared to the three prior quarters. Commercial Insurance showed increases in submission counts and $1.1 billion in new business written for the second consecutive quarter. Net premiums written have been affected by the strategic decision to remain price disciplined, particularly in the workers' compensation line of business, and the overall effect of the weakened state of the economy. Rates in the third quarter of 2009, remained stable reflecting the upward pressure on premiums from the combination of investment and underwriting losses suffered by the commercial insurance industry, partially offset by the effects of the current recessionary environment, such as employment levels for workers' compensation coverages and shipments of goods for commercial automobile coverages, as well as aggressive pricing, including from new competitors in the marketplace.

Foreign General Insurance maintained solid client retention rates in the third quarter of 2009 in key regions. The trend of de-risking by some customers and the effect of the economic conditions is expected to slow and therefore Foreign General's net premiums written are anticipated to stabilize. Although Foreign General faces challenges in commercial lines, particularly in the U.K. and Europe regions due to continued competition, its traditional capabilities of servicing its customers, innovation and claims paying ability continue to attract new accounts.

Life Insurance & Retirement Services

AIG expects that negative publicity about AIG during the fourth quarter of 2008 and the first nine months of 2009, AIG's previously announced asset disposition plan and the uncertainties related to AIG will continue to adversely affect Life Insurance & Retirement Services operations for the remainder of 2009, especially in the domestic businesses. In addition, AIG's issues have affected certain operations through higher surrender activity, primarily in the U.S. domestic retirement fixed annuity business and foreign investment-oriented and retirement products. Surrender levels have declined from their peaks in mid-September of 2008 and have begun to stabilize and return to pre-September 2008 levels for most products and countries.

These uncertainties, together with rating agency downgrades, have resulted in significantly reduced levels of new sales activity, particularly among products and markets where ratings are critical. Sales of investment-oriented and retirement services products have also declined due to the lingering effect of negative AIG events earlier in the year and the overall decline in industry sales of investment-oriented life and retirement services products. New sales activity is expected to remain at lower levels for certain markets until the uncertainties relating to AIG are resolved. AIA and ALICO have recently experienced improved operating conditions and are expected to continue to improve as the rebranding initiatives and revitalization of their distribution networks continues.

On June 25, 2009, AIG and AIRCO entered into the AIA Purchase Agreement with the FRBNY and AIG entered into the ALICO Purchase Agreement with the FRBNY. The transactions contemplated by the AIA Purchase Agreement and the ALICO Purchase Agreement are conditioned on one another and subject to certain other conditions, including regulatory approvals. It is expected that the transactions will result in a reduction in the outstanding balance of the FRBNY Facility and the maximum amount available to be borrowed thereunder equal to the liquidation preference of the preferred equity, which will be $25 billion, provided the maximum amount available under the FRBNY Facility will not be less than $25 billion as a result of such reduction.

With the adoption of the new other-than-temporary impairments accounting standard in the second quarter of 2009, AIG expects future investment yields to decline compared to the same periods in 2008 due to lower accretion. In prior periods, AIG accreted into earnings over the expected period to recovery the discount or reduced premium resulting from the reduction in the cost basis of other-than-temporarily impaired securities, which consisted primarily of securities impaired for severity reasons. Upon the adoption of the new other-than-temporary impairments accounting standard, approximately $1.8 billion of previously recognized other-than-temporarily impaired charges, primarily severity related, were reclassified from Accumulated deficit to Accumulated other comprehensive income. As a consequence, commencing in the second quarter of 2009, there will be no accretion attributable to the amounts reclassified into Accumulated other comprehensive income. This will be partially offset by lower deferred policy acquisition costs (DAC) and sales inducement asset (SIA) amortization in future periods resulting from the adoption of the new other-than-temporary impairments accounting standard. Additionally, higher liquidity and de-risking activities continue to negatively affect net investment income margins.

Financial Services

AIGFP began unwinding its businesses and portfolios during the fourth quarter of 2008, and these activities are expected to continue beyond 2009. In connection with these activities, AIGFP has disaggregated its portfolio of existing transactions into a number of separate "books," and has developed a plan for addressing each book, including assessing each book's risks, risk mitigation options, monitoring metrics and certain implications of various potential outcomes. Each plan has been reviewed by a steering committee whose membership includes senior executives of AIG. The plans are subject to change as efforts progress and as conditions in the financial markets evolve, and they contemplate, depending on the book in question, alternative strategies, including sales, assignments or other transfers of positions, terminations of positions, and/or run-offs of positions in accordance with existing terms. Execution of these plans is overseen by a transaction approval process involving increasingly senior members of AIGFP's and AIG's respective management groups as specific actions entail greater liquidity and financial consequences. Successful execution of these plans is subject, to varying degrees depending on the transactions of a given book, to market conditions and, in many circumstances, counterparty negotiation and agreement.

As a consequence of its wind-down strategy, AIGFP is entering into new derivative transactions only to hedge its current portfolio, reduce risk and hedge the currency, interest rate and other market risks associated with its affiliated businesses. AIGFP has already reduced the size of certain portions of its portfolio, including effecting a substantial reduction in credit derivative transactions in respect of multi-sector CDOs in connection with the Maiden Lane III LLC (ML III) transaction, a sale of its commodity index business, termination and sale of its activities as a foreign exchange prime broker, and sale and other disposition of its energy/infrastructure investment portfolio. Due to the long-term duration of many of AIGFP's derivative contracts and to the complexity of AIGFP's portfolio, AIG expects that an orderly wind-down will take a substantial period of time. The cost of executing the wind-down will depend on many factors, many of which are not within AIGFP's control, including market conditions, AIGFP's access to markets via market counterparties, the availability of liquidity and the potential implications of further rating downgrades. In addition, the Determination Memorandum issued by the Special Master places significant new restrictions on the compensation of AIGFP employees included in the Top 25 and may impair AIGFP's ability to retain these employees and negatively impact the wind-down of AIGFP's business.

Asset Management

Continued difficult market conditions have caused a decline in the value of certain private equity and real estate assets held for investment purposes resulting in impairment charges. The persistence of the troubled global economy driven by tight credit markets and rising unemployment will likely continue to adversely affect operating income in future periods. Management continues to assess value declines and the permanence of such declines. These market conditions have also adversely affected the ability to pay or refinance maturing debt obligations in the private equity and real estate portfolios.

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party Institutional Asset Management businesses. This sale will exclude those asset management businesses providing traditional fixed income and shorter duration asset and liability management for AIG's insurance company subsidiaries and AIG's Global Real Estate investment management business as well as proprietary real estate and private equity investments of the Institutional Asset Management business. AIG will also retain its real estate asset management business. AIG expects to continue short-term relationships with the divested businesses for other investment management services used by its insurance company subsidiaries.

Results of Operations

AIG identifies its operating segments by product line, consistent with its management structure. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services and Asset Management. Through these operating segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries and jurisdictions. AIG's Other category consists of business and items not allocated to AIG's operating segments.

AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. AIG's Financial Services businesses include commercial aircraft and equipment leasing, capital markets operations and consumer finance, both in the United States and abroad. AIG also provides asset management services to institutions and individuals.

Table of Contents

Consolidated Results

AIG's consolidated results of operations were as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percentage Increase (Decrease)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Percentage Increase (Decrease)
Revenues:						
Premiums and other considerations	**$ 16,041**	$ 21,082	(24)%	**$ 52,630**	$ 63,489	(17)%
Net investment income	**8,656**	2,946	194	**19,724**	14,628	35
Net realized capital losses	**(2,937)**	(18,312)	-	**(7,338)**	(30,482)	-
Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio	**959**	(7,054)	-	**1,143**	(21,726)	-
Other income	**3,330**	2,236	49	**9,873**	8,953	10
Total revenues	**26,049**	898	-	**76,032**	34,862	118
Benefits, claims and expenses:						
Policyholder benefits and claims incurred	**15,882**	17,189	(8)	**49,198**	51,521	(5)
Policy acquisition and other insurance expenses	**4,812**	6,782	(29)	**15,569**	18,166	(14)
Interest expense	**2,510**	2,297	9	**7,955**	4,902	62
Restructuring expenses and related asset impairment and other expenses	**371**	-	-	**1,076**	-	-
Other expenses	**2,681**	2,815	(5)	**7,490**	8,478	(12)
Total benefits, claims and expenses	**26,256**	29,083	(10)	**81,288**	83,067	(2)
Loss before income tax benefit	**(207)**	(28,185)	-	**(5,256)**	(48,205)	-
Income tax benefit	**(192)**	(3,480)	-	**(1,953)**	(10,374)	-
Net income (loss)	**(15)**	(24,705)	-	**(3,303)**	(37,831)	-
Less: Net loss attributable to noncontrolling interest	**(470)**	(237)	-	**(1,227)**	(201)	-
Net income (loss) attributable to AIG	**$ 455**	$ (24,468)	-%	**$ (2,076)**	$ (37,630)	-%

Premiums and Other Considerations

Premiums and other considerations decreased in the three- and nine-month periods ended September 30, 2009 compared to the same period in 2008 primarily due to:

a reduction of $2.6 billion and $4.5 billion in the three- and nine-month periods ended September 30, 2009, respectively, from dispositions, including the sale of the Brazilian operations in 2008, sales of HSB Group, Inc. (HSB) and 21st Century in 2009 and the deconsolidation of Transatlantic in 2009;

a decline in Commercial Insurance reflecting the economy's continued effect on the construction, environmental and transportation lines of businesses, which were negatively affected by the credit crisis that limited capital for new projects and a decline in the workers' compensation line of business due to lower payrolls and AIG's strategy to remain price disciplined in this business;

a decrease in Foreign General Insurance due to negative effect of foreign exchange, the sale of the Brazilian operations in 2008 noted above and lower premiums in Europe, the U.K. and Far East regions;

a decrease in Foreign Life Insurance & Retirement Services primarily due to lower sales and deposits, the sale of the Brazilian operations, the effect of foreign exchange translation, the effect of equity markets on investment-linked and annuity products globally; and

Table of Contents

a decrease in Domestic Life Insurance premiums, primarily due to lower payout annuities and the sale of AIG Life Canada.

See Segment Results herein for further discussion.

Net Investment Income

The components of consolidated net investment income were as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percentage Increase (Decrease)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Percentage Increase (Decrease)
Fixed maturities, including short-term investments	**$ 6,168**	$ 5,773	7%	**$ 14,949**	$ 16,691	(10)%
Equity securities	**155**	277	(44)	**362**	496	(27)
Interest on mortgage and other loans	**389**	407	(4)	**1,173**	1,182	(1)
Partnerships	**275**	(813)	-	**(504)**	(641)	-
Mutual funds	**158**	(632)	-	**343**	(656)	-
Trading account gains (losses)	**19**	(501)	-	**(15)**	(722)	-
Other investments	**214**	228	(7)	**707**	768	(8)
Total investment income before policyholder income and trading gains (losses)	**7,378**	4,739	56	**17,015**	17,118	(1)
Policyholder investment income and trading losses	**1,412**	(1,561)	-	**3,240**	(1,729)	-
Total investment income	**8,790**	3,178	177	**20,255**	15,389	32
Investment expenses	**134**	232	(42)	**531**	761	(30)
Net investment income	**$ 8,656**	$ 2,946	194%	**$ 19,724**	$ 14,628	35%

Net investment income increased in the three-month period ended September 30, 2009 compared to the same period in 2008 due to:

increased policyholder investment income and trading gains for Foreign Life Insurance & Retirement Services (together, policyholder trading gains (losses)), compared to the same period in 2008. Policyholder trading losses are offset by a change in policyholder benefits and claims incurred and generally reflect the trends in equity markets, principally in Japan and Asia;

gains of $224 million and $1.2 billion for the third quarter of 2009 associated with the changes in fair value of AIG's interests in Maiden Lane II LLC (ML II) and ML III, respectively;

a small trading account gain for the Foreign Life Insurance & Retirement Services business in the U.K. associated with certain investment-linked products compared to a large loss in the same period of 2008; and

gains from partnership investments and mutual funds reflecting stronger market conditions in 2009 than in 2008.

These increases were partially offset by:

- lower levels of invested assets in 2009 compared to 2008; and

- lower returns as a result of increased levels of short-term investments that were held for liquidity purposes.

Net investment income increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to:

- increased policyholder investment income and trading gains and losses for Foreign Life Insurance & Retirement Services as noted above;

- gains associated with the change in fair value of AIG's investment in ML III of $223 million in 2009; and

- gains from mutual fund investments reflecting stronger market conditions in 2009 than in 2008.

These increases were partially offset by:

- losses associated with the change in fair value of AIG's interests in ML II of $116 million in 2009;
- lower levels of invested assets in 2009 compared to 2008; and
- lower returns as a result of increased levels of short-term investments that were held for liquidity purposes.

Net Realized Capital Gains (Losses)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2009**	**2008**	**2009**	**2008**
Sales of fixed maturity securities	**$ 386**	$ (768)	**$ 1,179**	$ (778)
Sales of equity securities	**263**	288	**399**	608
Sales of real estate and other assets	**(324)**	97	**(918)**	422
Divested businesses	**(885)**	-	**(1,201)**	-
Other-than-temporary impairments:				
Severity	**(54)**	(7,327)	**(1,833)**	(16,275)
Change in intent	**(51)**	(8,299)	**(1,015)**	(9,320)
Foreign currency declines	**(64)**	(50)	**(415)**	(1,084)
Issuer-specific credit events	**(1,617)**	(3,453)	**(3,345)**	(3,946)
Adverse projected cash flows on structured securities	**-**	(747)	**(148)**	(1,621)
Foreign exchange transactions	**(20)**	1,996	**(1,037)**	1,258
Derivative instruments	**(571)**	(49)	**996**	254
Total	**$ (2,937)**	$ (18,312)	**$ (7,338)**	$ (30,482)

Net realized capital losses decreased in the three- and nine-month periods ended September 30, 2009 compared to the same periods in 2008. The 2008 periods included non-credit impairments (i.e. severity losses) that are no longer required for fixed maturity securities due to the adoption of the new other-than-temporary impairments accounting standard. Additionally, other-than-temporary impairments declined from the 2008 periods due to improved market conditions, principally in the second and third quarters of 2009. See Note 5 to the Consolidated Financial Statements; and Investments Portfolio Review Other-Than-Temporary Impairments. See also out of period adjustments discussion in Note 1 to the Consolidated Financial Statements.

Unrealized Market Valuation Gains (Losses) on AIGFP Super Senior Credit Default Swap Portfolio

AIGFP reported unrealized market valuation gains related to its super senior credit default swap portfolio of $959 million and $1.1 billion in the three- and nine-month periods ended September 30, 2009, respectively, and unrealized market valuation losses of $7.1 billion and $21.7 billion in the three- and nine-month periods ended September 30, 2008, respectively. The change in the unrealized market valuation gains (losses) related to AIGFP's super senior credit default swap portfolio was due to the substantial decline in outstanding net notional amount resulting from the termination of contracts in the fourth quarter of 2008 associated with the ML III transaction, the improvement in market conditions in 2009 as well as the narrowing of corporate credit spreads. See Financial Services Operations Capital Markets Results; Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities; Note 4 to the Consolidated Financial Statements; and Note 5 to the Consolidated Financial Statements in the 2008 Financial Statements.

Other Income (Loss)

Other income increased in the three-month period ended September 30, 2009 compared to the same period in 2008 primarily due to a net credit valuation adjustment gain of $730 million in 2009 compared to a net credit valuation adjustment loss of $1.1 billion in 2008 on AIGFP's assets and liabilities which are measured at fair value, partially

113

offset by a decline in Institutional Asset Management revenues due to impairments on proprietary real estate and private equity investments of $674 million as well as lower base management fees on lower base assets under management in 2009.

Other income increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 due to:

- a net credit valuation adjustment gain of $2.4 billion in 2009 compared to a net credit valuation adjustment loss of $1.6 billion in 2008 on AIGFP's assets and liabilities which are measured at fair value; and
- an improvement of $1.1 billion reflecting the positive effect of hedging activities that did not qualify for hedge accounting, which was driven by the weakening of the U.S. dollar against most major currencies during 2009.

This increase was partially offset by:

- a $2.1 billion decline in Institutional Asset Management revenues due to impairments on proprietary real estate and private equity investments and lower base management fees noted above;
- a decline of $1.1 billion in income from consolidated managed partnerships and funds, which is offset in net income (loss) attributable to non-controlling interest;
- lower finance charges and other revenues in AGF reflecting the sales of real estate portfolios as part of AGF's liquidity management efforts; and
- a decline in spread-based revenue due to runoff of the GIC business.

Policyholder Benefits and Claims Incurred

Policyholder benefits and claims incurred decreased in the three-month period ended September 30, 2009 compared to the same period in 2008 due to:

- a reduction of $1.9 billion from dispositions, primarily the sale of the Brazilian operations in 2008, sales of HSB and 21st Century in 2009 and the deconsolidation of Transatlantic in 2009; and
- catastrophe-related losses of $55 million in 2009 compared to $1.4 billion in 2008. Losses in 2008 primarily related to hurricanes Ike and Gustav.

These decreases were partially offset by an increase in incurred policy losses and benefits expenses for Foreign Life Insurance & Retirement Services due to policyholder trading gains of $1.4 billion in 2009 compared to policyholder trading losses of $1.5 billion in 2008 as discussed above in Net Investment Income.

Policyholder benefits and claims incurred decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008 due to:

- a reduction of $3.6 billion from dispositions, primarily the sale of the Brazilian operations in 2008, sales of HSB and 21st Century in 2009 and the deconsolidation of Transatlantic in 2009;

catastrophe-related losses of $55 million in 2009 compared to $1.5 billion in 2008; and

These decreases were partially offset by:

an increase in incurred policy losses and benefits expenses for Foreign Life Insurance & Retirement Services due to policyholder trading gains of $3.3 billion in 2009 compared to policyholder trading losses of $1.6 billion in 2008 as discussed above in Net Investment Income; and

adverse development from prior years in Commercial Insurance and increased current year losses in Foreign General Insurance from exposure to financial lines claims.

Policy Acquisition and Other Insurance Expenses

Policy acquisition and other insurance expenses decreased in the three-month period ended September 30, 2009 compared to the same period in 2008 primarily due to:

- a reduction of $780 million from dispositions, primarily the sale of the Brazilian operations in 2008, sales of HSB and 21st Century in 2009 and the deconsolidation of Transatlantic in 2009;
- the decline in production levels for General Insurance and Life Insurance & Retirement Services; and
- a premium deficiency reserve of $453 million established in the third quarter of 2008 related to UGC's second-lien business.

Policy acquisition and other insurance expenses decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to:

- a reduction of $1.3 billion from dispositions noted above;
- the decline in production levels for General Insurance and Life Insurance & Retirement Services; and
- a premium deficiency reserve of $453 million in 2008 noted above.

Interest Expense

Interest expense increased in the three- and nine-month periods ended September 30, 2009 compared to the same period in 2008 primarily due to interest expense on the FRBNY Facility. Interest expense on the FRBNY Facility was $1.3 billion and $4.2 billion, respectively, for the three- and nine-month periods ended September 30, 2009 and included $822 million and $2.5 billion, respectively, of amortization of the prepaid commitment fee asset and $430 million and $1.7 billion, respectively, of accrued compounding interest. During 2009, interest expense benefited from a reduced interest rate on the FRBNY Facility; however, because the facility was outstanding for the full quarter in 2009 compared to only 15 days in 2008, the interest expense in the 2009 period was higher than in the 2008 period. These amounts are reflected in the Other category in AIG's segment results.

Restructuring Expenses and Related Asset Impairment and Other Expenses

In the fourth quarter of 2008, AIG commenced an organization-wide restructuring plan under which some of its businesses are being divested, some will be held for later divestiture, some are being prepared for potential offerings to the public and some will be retained. In connection with activities under this plan, AIG recorded restructuring and separation expenses of $371 million in the three-month period ended September 30, 2009, consisting of severance expenses of $57 million, contract termination expenses of $1 million, asset write-downs of $97 million, other exit expenses of $78 million and separation expenses of $138 million. AIG recorded restructuring and separation expenses of $1.1 billion in the nine-month period ended September 30, 2009, consisting of severance expenses of $138 million, contract termination expenses of $40 million, asset write-downs of $118 million, other exit expenses of $359 million, and separation expenses of $421 million.

Other exit expenses primarily include professional fees related to (i) disposition activities, (ii) AIG's capital restructuring program with the FRBNY and the Department of the Treasury and (iii) unwinding of AIGFP's businesses and portfolios.

Severance and separation expenses described above include retention awards of $126 million and $407 million for the three- and nine-month periods ended September 30, 2009, respectively, to key employees to maintain ongoing business operations and facilitate the successful execution of the restructuring and asset disposition plan. The awards under these retention plans were granted in 2008 and are accrued ratably over the future service periods, which range from 2008 to 2011. The total amount expected to be incurred related to these 2008 retention plans is approximately $1.1 billion. AIG made payments to the employees under these plans in 2008 and the first nine months of 2009 and expects to make further payments for the remainder of 2009 through 2011. The ultimate amount paid could be less primarily due to the effect of forfeitures.

115

Table of Contents

Amounts charged to expense, and expected to be charged to expense, and the total amounts expected to be incurred under the 2008 retention plans, by operating segment, are as follows:

(In millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
Amounts charged to expense:						
Three months ended September 30, 2009	$ 30	$ 33	$ 48	$ 8	$ 7	$ 126
Nine months ended September 30, 2009	99	111	139	23	35	407
Cumulative incurred since inception of restructuring plan[(a)]	182	164	426	70	108	950
Amounts expected to be incurred in future periods:						
Remainder of 2009	18	28	31	5	8	90
2010	7	16	-	-	2	25
2011	-	1	-	-	-	1
Total amounts expected to be incurred in future periods	25	45	31	5	10	116
Total amounts expected to be incurred	$ 207	$ 209	$ 457	$ 75	$ 118	$ 1,066*(b)*

(a) *Includes an adjustment of $51 million in Financial Services to increase the cumulative amount incurred since inception for retention amounts paid in 2008.*

(b) *At September 30, 2009, remaining amounts payable totaled $515 million.*

Total restructuring and separation expenses could have a material effect on future consolidated results of operations and cash flows.

See Note 2 to the Consolidated Financial Statements for additional discussion regarding restructuring and separation expenses.

Other Expenses

Other expenses for the three-month period ended September 30, 2009 was essentially unchanged compared to the same period in 2008. Other expenses decreased in the nine-month period ended September 30, 2009 compared to the same periods in 2008 primarily due to a decrease in compensation-related costs resulting from the deconsolidation of certain portfolio investments and the sale of Private Bank in the Asset Management segment and lower interest expense on GICs, partially offset by increased goodwill impairments in the Asset Management segment.

Income Taxes (Benefits)

The effective tax rates on pre-tax losses for the three- and nine-month periods ended September 30, 2009 were 92.8 percent and 37.1 percent, respectively. The effective tax rates were higher than the statutory rate of 35 percent due primarily to tax exempt interest and the change in estimated U.S. tax liability with respect to the potential sale of subsidiaries, partially offset by an increase in the valuation allowance and reserve for uncertain tax positions.

At September 30, 2009, AIG reported a net deferred tax asset after valuation allowance of $6.8 billion. This asset was net of $3.9 billion of net deferred tax liabilities related to foreign subsidiaries and certain domestic subsidiaries that file separate tax returns and $0.5 billion of deferred tax liabilities on available for sale securities which are evaluated separately. Management determined, based on its assessments of future earnings, principally related to AIG's divestiture plan, that it is more likely than not that the remaining $11.2 billion net deferred tax asset is realizable.

Realization of AIG's net deferred tax asset depends on AIG's ability to consummate the proposed AIA and ALICO transactions and to generate sufficient future taxable income of the appropriate character within carryforward periods of the jurisdictions in which the net operating and capital losses, tax credits and deductible temporary differences were incurred.

Estimates of future taxable income could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG's consolidated financial condition or its results of operations.

When making its assessment about the realization of its deferred tax assets at September 30, 2009, AIG considered all available evidence, including (i) the nature, frequency, and severity of current and cumulative financial reporting losses, (ii) actions completed to date and additional actions expected to be completed, (iii) the carryforward periods for the net operating and capital loss and foreign tax credit carryforwards, (iv) the sources and timing of future taxable income, giving greater weight to discrete sources and to earlier years in the forecast period, and (v) tax planning strategies that would be implemented, if necessary, to accelerate taxable amounts. Management has also considered the period during which it expects to receive support from the FRBNY.

The effective tax rates on the pre-tax losses for the three- and nine-month periods ended September 30, 2008 were 12.3 percent and 21.5 percent, respectively. The effective tax rates were lower than the statutory rate of 35 percent due primarily to $3.6 billion of deferred tax expense attributable to the potential sale of foreign businesses and a $3.3 billion valuation allowance to reduce tax benefits on capital losses to the amount that AIG believes is more likely than not to be realized.

See Note 12 to the Consolidated Financial Statements for a rollforward of the deferred tax asset and related valuation allowance.

Segment Results

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

(in millions)	**Three Months Ended September 30, 2009**	**2008**	**Percentage Increase (Decrease)**	**Nine Months Ended September 30, 2009**	**2008**	**Percentage Increase (Decrease)**
Total Revenues[(a)(b)]:						
General Insurance[(c)]	$ **9,165**	$ 8,450	8%	$ **26,139**	$ 28,188	(7)%
Life Insurance & Retirement Services	**13,192**	(4,642)	-	**37,034**	14,271	160
Financial Services[(d)(e)]	**3,106**	(5,851)	-	**6,534**	(16,016)	-
Asset Management	**(958)**	10	-	**(207)**	658	-
Other[(c)]	**1,566**	2,935	(47)	**7,609**	8,561	(11)
Consolidation and eliminations	**(22)**	(4)	-	**(1,077)**	(800)	-
Total	**26,049**	898	-	**76,032**	34,862	118
Net realized capital gains (losses)[(a)(b)]:						
General Insurance[(c)]	**92**	(1,366)	-	**(561)**	(2,105)	-
Life Insurance & Retirement Services	**(932)**	(16,341)	-	**(3,755)**	(25,720)	-
Financial Services[(d)]	**(657)**	(33)	-	**(681)**	(169)	-
Asset Management	**(1,169)**	(1,116)	-	**(1,243)**	(2,985)	-
Other[(c)]	**(271)**	544	-	**(1,098)**	497	-
Total	**(2,937)**	(18,312)	-	**(7,338)**	(30,482)	-
Operating Income (loss)[(a)(b)]:						
General Insurance[(c)]	**814**	(1,261)	-	**1,908**	1,466	30
Life Insurance & Retirement Services	**1,281**	(15,329)	-	**1,214**	(19,561)	-
Financial Services[(d)(e)]	**900**	(8,203)	-	**(311)**	(22,880)	-
Asset Management	**(2,235)**	(1,144)	-	**(3,090)**	(2,709)	-
Other[(c)]	**(1,338)**	(2,712)	-	**(5,135)**	(4,758)	-
Consolidation and eliminations	**371**	464	-	**158**	237	-

Total	**$**	**(207)**	$	(28,185)	-%	**$**	**(5,256)**	$	(48,205)	- %

117

Table of Contents

(a)
Includes gains (losses) from hedging activities that did not qualify for hedge accounting, including the related foreign exchange gains and losses, and, for third-party hedges, credit valuation adjustments. For the three-month periods ended September 30, 2009 and 2008, the effect was $(141) million and $1.2 billion, respectively, in both revenues and operating income (loss). For the nine-month periods ended September 30, 2009 and 2008, the effect was $740 million and $705 million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

(b)
Includes other-than-temporary impairment charges. See also Invested Assets Portfolio Review Other-Than-Temporary Impairments for further discussion.

(c)
In order to better align financial reporting with the manner in which AIG's chief operating decision makers manage their businesses, beginning in the second quarter of 2009, the results for Transatlantic, Personal Lines, Mortgage Guaranty and HSB are included in AIG's Other operations. These amounts were previously reported as part of the General Insurance operating segment. Prior period amounts have been revised to conform to the current presentation. As a result of dispositions, only Mortgage Guaranty is reporting ongoing results of operations commencing in the third quarter of 2009.

(d)
Includes gains (losses) from hedging activities that did not qualify for hedge accounting, including the related foreign exchange gains and losses and, for third-party hedges, credit valuation adjustments. For the three-month periods ended September 30, 2009 and 2008, the effect was $(111) million and $217 million, respectively, in both revenues and operating income (loss). For the nine-month periods ended September 30, 2009 and 2008, the effect was $121 million and $18 million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

(e)
Includes unrealized market valuation gains of $959 million and losses of $7.1 billion for the three-month periods ended September 30, 2009 and 2008, respectively, and gains of $1.1 billion and losses of $21.7 billion for the nine-month periods ended September 30, 2009 and 2008, respectively, on AIGFP's super senior credit default swap portfolio.

General Insurance Operations

AIG's General Insurance subsidiaries are multiple line companies writing substantially all lines of property and casualty insurance and various personal lines both domestically and abroad.

Commercial Insurance writes substantially all classes of business insurance, accepting such business mainly from insurance brokers. This provides Commercial Insurance the opportunity to select specialized markets and retain underwriting control. Any licensed broker is able to submit business to Commercial Insurance without the traditional agent-company contractual relationship, but such broker usually has no authority to commit Commercial Insurance to accept a risk.

AIG's Foreign General insurance group writes both commercial and consumer lines of insurance through a network of branches and foreign based insurance subsidiaries. Foreign General insurance group uses various marketing methods and multiple distribution channels to write both commercial and consumer lines insurance with certain refinements for local laws, customs and needs. Foreign General insurance group operates in Asia, the Pacific Rim, Europe, the U.K., Africa, the Middle East and Latin America.

In order to better align financial reporting with the manner in which AIG's chief operating decision makers manage their businesses, beginning in the second quarter of 2009, the results for Transatlantic, Personal Lines (excluding the results of the Private Client Group), and Mortgage Guaranty, previously reported as part of the General Insurance operating segment, are now included in AIG's Other operations. In addition, the historical results of HSB (which was sold on March 31, 2009), which were previously included in Commercial Insurance, are also now included in AIG's Other operations. Prior period amounts have been revised to conform to the current presentation.

Table of Contents

General Insurance Results

General Insurance operating income is comprised of statutory underwriting profit (loss), changes in DAC, net investment income and net realized capital gains and losses. Operating income (loss), as well as net premiums written, net premiums earned, net investment income and net realized capital gains (losses) and statutory ratios, were as follows:

	Three Months Ended September 30,		Percentage Increase	Nine Months Ended September 30,		Percentage Increase
(in millions, except ratios)	**2009**	**2008**	**(Decrease)**	**2009**	**2008**	**(Decrease)**
Net premiums written:						
Commercial Insurance	**$ 5,002**	$ 5,630	(11)%	**$ 14,154**	$ 16,833	(16)%
Foreign General Insurance	**3,074**	3,647	(16)	**9,580**	11,712	(18)
Total	**$ 8,076**	$ 9,277	(13)%	**$ 23,734**	$ 28,545	(17)%
Net premiums earned:						
Commercial Insurance	**$ 4,807**	$ 5,762	(17)%	**$ 14,982**	$ 17,096	(12)%
Foreign General Insurance	**3,132**	3,532	(11)	**9,262**	10,740	(14)
Total	**$ 7,939**	$ 9,294	(15)%	**$ 24,244**	$ 27,836	(13)%
Net investment income:						
Commercial Insurance	**$ 889**	$ 517	72%	**$ 1,834**	$ 1,853	(1)%
Foreign General Insurance	**245**	5	-	**622**	604	3
Total	**$ 1,134**	$ 522	117%	**$ 2,456**	$ 2,457	-%
Net realized capital gains (losses)	**$ 92**	$ (1,366)	-%	**$ (561)**	$ (2,105)	-%
Operating income (loss):						
Commercial Insurance	**$ 582**	$ (1,052)	-%	**$ 941**	$ 143	-%
Foreign General Insurance	**232**	(209)	-	**967**	1,323	(27)
Total	**$ 814**	$ (1,261)	-%	**$ 1,908**	$ 1,466	30%
Statutory underwriting profit (loss)*:						
Commercial Insurance	**$ (374)**	$ (464)	-%	**$ (259)**	$ 74	-%
Foreign General Insurance	**(112)**	74	-	**218**	881	(75)
Total	**$ (486)**	$ (390)	-%	**$ (41)**	$ 955	-%
Commercial Insurance						
Loss ratio	**84.8**	87.1		**80.9**	78.8	
Expense ratio	**21.6**	21.9		**21.2**	21.0	
Combined ratio	**106.4**	109.0		**102.1**	99.8	

Foreign General Insurance				
Loss ratio	**61.3**	59.3	**57.3**	54.9
Expense ratio	**42.1**	37.9	**39.1**	35.1
Combined ratio	**103.4**	97.2	**96.4**	90.0
Total				
Loss ratio	**75.5**	76.5	**71.9**	69.5
Expense ratio	**29.7**	28.0	**28.1**	26.5
Combined ratio	**105.2**	104.5	**100.0**	96.0

*

Statutory underwriting profit (loss) is a measure that U.S. domiciled insurance companies are required to report to their regulatory authorities. The following table reconciles statutory underwriting profit (loss) to operating income (loss) for General Insurance:

119

Table of Contents

(in millions)	Commercial Insurance	Foreign General Insurance	Total
Three Months Ended September 30, 2009			
Statutory underwriting profit (loss)	**$ (374)**	**$ (112)**	**$ (486)**
Increase (decrease) in DAC	**68**	**6**	**74**
Net investment income	**889**	**245**	**1,134**
Net realized capital gains (losses)	**(1)**	**93**	**92**
Operating income (loss)	**$ 582**	**$ 232**	**$ 814**
Three Months Ended September 30, 2008			
Statutory underwriting profit (loss)	$ (464)	$ 74	$ (390)
Increase in DAC	(52)	25	(27)
Net investment income	517	5	522
Net realized capital gains (losses)	(1,053)	(313)	(1,366)
Operating income (loss)	$ (1,052)	$ (209)	$ (1,261)
Nine Months Ended September 30, 2009			
Statutory underwriting profit (loss)	**$ (259)**	**$ 218**	**$ (41)**
Increase (decrease) in DAC	**(59)**	**113**	**54**
Net investment income	**1,834**	**622**	**2,456**
Net realized capital gains (losses)	**(575)**	**14**	**(561)**
Operating income (loss)	**$ 941**	**$ 967**	**$ 1,908**
Nine Months Ended September 30, 2008			
Statutory underwriting profit (loss)	$ 74	$ 881	$ 955
Increase in DAC	(32)	191	159
Net investment income	1,853	604	2,457
Net realized capital gains (losses)	(1,752)	(353)	(2,105)
Operating income (loss)	$ 143	$ 1,323	$ 1,466

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of General Insurance net premiums written:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Decrease in original currency*	**(12.0)%**	(2.3)%	**(14.4)%**	(3.1)%
Foreign exchange effect	**(0.9)**	2.5	**(2.5)**	3.1
Increase (decrease) as reported in U.S. dollars	**(12.9)%**	0.2%	**(16.9)%**	-%

*

Computed using a constant exchange rate for each period.

Quarterly General Insurance Results

General Insurance reported operating income in the three-month period ended September 30, 2009 compared to an operating loss in the same period in 2008 due to a significant increase in net investment income and the absence of realized capital losses in 2009, which more than offset an increased underwriting loss.

General Insurance net premiums written decreased 13 percent in the three-month period ended September 30, 2009 compared to the same period in 2008. Net premiums written were affected by foreign exchange rates and a decline in U.S. workers' compensation premiums due to lower payrolls and a strategy to remain price disciplined. General Insurance net premiums written also declined due to the previous sale of the Brazilian operations.

The combined ratio for the three-month period ended September 30, 2009 increased compared to the same period in 2008. The loss ratio for accident year 2009 recorded in the three-month period ended September 30, 2009 was 6.4 points lower than the loss ratio for accident year 2008 recorded in the three-month period ended September 30, 2008 due to lower catastrophe losses in the current year, partially offset by premium rate decreases and changes in loss trends. Prior year development increased incurred losses by $246 million in the three-month period ended September 30, 2009 and decreased incurred losses by $189 million in the three-month period ended September 30, 2008. Catastrophes increased incurred losses by $55 million and $1.2 billion in the three-month periods ended September 30, 2009 and 2008, respectively.

Year-to-Date General Insurance Results

General Insurance operating income increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 due to lower net realized capital losses from other-than-temporary impairments on investments, which more than offset a significant deterioration in underwriting results.

General Insurance net premiums written decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008. Net premiums written were affected by foreign exchange rates, the U.S. construction, real estate and transportation lines of business, which were negatively affected by the credit crisis that limited capital for new projects, and a decline in U.S. workers' compensation premiums due to lower payrolls and a strategy to remain price disciplined. General Insurance net premiums written also declined due to the previous sale of the Brazilian operations.

The combined ratio for the nine-month period ended September 30, 2009 increased compared to the same period in 2008. The loss ratio for accident year 2009 recorded in the nine-month period ended September 30, 2009 was 0.8 points lower than the loss ratio for accident year 2008 recorded in the nine-month period ended September 30, 2008 due to lower catastrophe losses in the current year, partially offset by premium rate decreases and changes in loss trends. Prior year development increased incurred losses by $478 million in the nine-month period ended September 30, 2009 and decreased incurred losses by $341 million in the nine-month period ended September 30, 2008. The net adverse development for 2009 includes $172 million of favorable development related to loss sensitive policies compared to $339 million of favorable development related to loss sensitive policies in the same period in 2008. The favorable development related to loss sensitive policies had no effect on underwriting profit as it was entirely offset by a decline in earned premiums. For the first nine months of 2009 the current accident year combined ratio was 97.5 percent.

See Results of Operations Consolidated Results for further discussion on Net investment income and Realized capital gains (losses).

Quarterly Commercial Insurance Results

Commercial Insurance operating income increased in the three-month period ended September 30, 2009 compared to the same period in 2008 mainly due to an increase in net investment income and lower net realized capital losses.

Commercial Insurance net premiums written decreased 11 percent in the three-month period ended September 30, 2009 compared to the same period in 2008. The decline can be attributed to the construction, real estate and transportation lines of businesses, which were negatively affected more than other AIG lines by the credit crisis that limited capital for new projects, and a decline in the workers' compensation line of business due to lower payrolls and a strategy to remain price disciplined, as well as to the overall state of the weakened economy.

The loss ratio recorded in the three-month period ended September 30, 2009 decreased compared to the same period in 2008. The loss ratio for accident year 2009 recorded in the three-month period ended September 30, 2009 was 10.4 points lower than the loss ratio for accident year 2008 recorded in the three-month period ended September 30, 2008 due to lower catastrophe losses in the current year, partially offset by premium rate decreases and adverse changes in loss trends. Net prior year development increased incurred losses by $256 million in the three-month period ended September 30, 2009 and decreased incurred losses by $140 million in the three-month period ended September 30, 2008. Catastrophes increased incurred losses by $55 million and $1.1 billion in the three-month periods ended September 30, 2009 and 2008, respectively.

The expense ratio decreased in the three-month period ended September 30, 2009 compared to the same period in 2008. Overall expenses were down $107 million, or 9 percent from prior year due to continued focus on variable expenses, partially offset by higher pension costs and other restructuring charges.

Year-to-Date Commercial Insurance Results

Commercial Insurance operating income increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to lower net realized capital losses from other-than-temporary impairments on investments, which more than offset an underwriting loss.

Net premiums written decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008 due to declines in workers' compensation premiums and the construction, real estate and transportation lines of businesses as described above. Net premiums written were also adversely affected by AIG's negative publicity in the current year.

The loss ratio recorded in the nine-month period ended September 30, 2009 increased compared to the same period in 2008. The loss ratio for accident year 2009 recorded in the nine-month period ended September 30, 2009 was 2.4 points lower than the loss ratio for accident year 2008 recorded in the nine-month period ended September 30, 2008 due to lower catastrophe losses in the current year, partially offset by premium rate decreases and adverse changes in loss trends. Prior year development increased incurred losses by $482 million in the nine-month period ended September 30, 2009 and reduced incurred losses by $276 million in the nine-month period ended September 30, 2008. The net adverse development includes favorable development related to loss sensitive policies of $172 million in the nine-month period ended September 30, 2009 and $339 million in the nine-month period ended September 30, 2008. For the first nine months of 2009, the current accident year combined ratio was 98.0.

The expense ratio remained flat in the nine-month period ended September 30, 2009 compared to the same period in 2008. Overall expenses were down $442 million, or 12 percent from prior year due to lower variable expenses, partially offset by higher pension costs and other restructuring costs.

Foreign General Insurance Results

AIG transacts business in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Foreign General Insurance net premiums written:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2009	**2008**	**2009**	**2008**
Increase (decrease) in original currency*	**(13.2)%**	4.2%	**(12.2)%**	6.8%
Foreign exchange effect	**(2.5)**	7.3	**(6.0)**	8.8
Increase (decrease) as reported in U.S. dollars	**(15.7)%**	11.5%	**(18.2)%**	15.6%

* *Computed using a constant exchange rate for each period.*

Quarterly Foreign General Insurance Results

Foreign General Insurance operating income increased in the three-month period ended September 30, 2009 compared to the same period in 2008 due to an increase in net investment income related to improving equity mutual fund income as a result of the stronger performance in the equity markets offset by an underwriting loss.

Net premiums written decreased in the three-month period ended September 30, 2009 compared to the same period in 2008. The effect of foreign exchange contributed to 2.5 percent of this decline and the sale of the Brazilian operations in 2008 contributed to 9.3 percent of the decline. Net premiums written for the Lloyd's syndicate Ascot exhibited strong growth in the third quarter due to an improved rate environment and contributed to the highest levels of core production growth in Foreign General Insurance since September 2008. However, the negative effect of the economic downturn and customer de-risking continues to have a negative effect on net premium growth. The consumer lines business was affected by the continued global recessionary pressure reducing the number of overseas travelers and auto sales, particularly in the Far East region.

The loss ratio in the three-month period ended September 30, 2009 increased by 2.0 points compared to the same period in 2008. The third quarter 2009 loss ratio was primarily negatively affected by the increased loss activity arising from the recent disruption in the financial markets as well as financial frauds (6.4 points), while the same period in 2008 was affected by natural catastrophes Hurricane Ike and Gustav (3.6 points). The loss ratio for accident year 2009 recorded in the third quarter of 2009 was higher than the loss ratio for accident year 2008 recorded in the third quarter of 2008 reflecting an increased actuarial adjustment to the loss estimates made in the current quarter including adjustments to the first and second quarters of 2009.

The expense ratio increased in the three-month period ended September 30, 2009 compared to the same period in 2008 due to increased separation costs, restructuring charges, certain bad debt-related expenses, pension costs, as well as lower earned premiums.

Year-to-Date Foreign General Insurance Results

Foreign General Insurance operating income decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to a decrease in underwriting profit offset by an increase in net investment income reflecting higher equity mutual fund income related to stronger performance in the equity markets.

Net premiums written decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008. The effect of foreign exchange contributed to 6.0 percent of this decline and the sale of the Brazilian operations in 2008 contributed to 7.2 percent of the decline. The Europe region maintained strong client and policy retention in the third quarter and continues to return to historical levels. In the Far East operations, the economic downturn continued to negatively affect new business in the consumer lines portfolio.

The loss ratio in the nine-month period ended September 30, 2009 increased by 2.3 points compared to the same period in 2008 reflecting claim increases in the financial institutions professional indemnity book as a result of the credit crisis, continued exposure to credit and fraud claims along with higher claims frequency in major markets. For the first nine months of 2009 the current accident year combined ratio was 96.4 percent.

The expense ratio increased in the nine- month period ended September 30, 2009 compared to the same period in 2008 due to increased separation costs, restructuring charges, certain costs associated with bad debt-related expenses, pension costs, as well as lower earned premiums.

Liability for unpaid claims and claims adjustment expense

The following discussion on the consolidated liability for unpaid claims and claims adjustment expenses (loss reserves) presents loss reserves for the Commercial Insurance and Foreign General Insurance reporting units in the General Insurance operating segment and loss reserves pertaining to divested and/or noncore businesses, comprising the Transatlantic, Personal Lines and Mortgage Guaranty reporting units reported in AIG's Other category.

Table of Contents

The following table presents the components of the loss reserves by major lines of business on a statutory annual statement basis[(a)]:

(in millions)		September 30, 2009		December 31, 2008
Other liability occurrence	**$**	**19,086**	$	19,773
Workers' compensation		**14,537**		15,170
Other liability claims made		**12,249**		13,189
International		**12,058**		11,786
Auto liability		**3,939**		5,593
Property		**3,958**		5,201
Mortgage Guaranty/Credit		**5,059**		3,137
Reinsurance		**133**		3,102
Products liability		**2,338**		2,400
Medical malpractice		**1,620**		2,210
Aircraft		**1,381**		1,693
Accident and health		**1,590**		1,451
Commercial multiple peril		**1,060**		1,163
Fidelity/surety		**867**		1,028
Other		**1,724**		2,362
Total[(b)]	**$**	**81,599**	$	89,258

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

(b)
The decrease from the December 31, 2008 loss reserve amount was primarily due to the deconsolidation of Transatlantic.

AIG's gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for incurred but not yet reported reserves (IBNR) and loss expenses. The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting therefrom are currently reflected in operating income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase previous estimates of ultimate cost are referred to as unfavorable or adverse development or reserve strengthening. Reserve changes that decrease previous estimates of ultimate cost are referred to as favorable development.

Estimates for mortgage guaranty insurance losses and loss adjustment expense reserves are based on notices of mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. Mortgage Guaranty establishes reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon past experience regarding certain loan factors such as age of the delinquency, cure rates, dollar amount of the loan and type of mortgage loan. Because mortgage delinquencies and claims payments are affected primarily by macroeconomic events, such as changes in home price appreciation or depreciation, interest rates and unemployment, the determination of the ultimate loss cost requires a high degree of judgment. AIG believes it has provided appropriate reserves for currently delinquent loans. Consistent with industry practice, AIG does not establish a reserve for insured loans that are not currently delinquent, but that may become delinquent in future periods.

At September 30, 2009, net loss reserves decreased $7.58 billion from the prior year-end to $64.87 billion primarily due to dispositions. The net loss reserves represent loss reserves reduced by reinsurance recoverable, net of an allowance for unrecoverable reinsurance and applicable discount for future investment income.

The following table classifies the components of the net liability for unpaid claims and claims adjustment expense by business unit:

(in millions)		September 30, 2009		December 31, 2008
General Insurance segment:				
Commercial Insurance[(a)]	**$**	**48,535**	$	48,896
Foreign General Insurance		**11,904**		10,853
Total General Insurance		**60,439**		59,749
Noncore businesses:				
Transatlantic[(b)]		**-**		7,349
21st Century[(a)(b)]		**-**		2,065
Mortgage Guaranty		**4,434**		3,004
HSB[(b)]		**-**		288
Total noncore businesses		**4,434**		12,706
Total net loss reserves	**$**	**64,873**	$	72,455

(a) *December 31, 2008 balances have been revised to reclassify Private Client Group into Commercial Insurance.*

(b) *Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009; and HSB was sold during the first quarter of 2009.*

Discounting of Reserves

At September 30, 2009, net loss reserves reflect a loss reserve discount of $2.57 billion, including tabular and non-tabular calculations. The tabular workers' compensation discount is calculated using a 3.5 percent interest rate and the 1979-81 Decennial Mortality Table. The non-tabular workers' compensation discount is calculated separately for companies domiciled in New York and Pennsylvania, and follows the statutory regulations for each state. For New York companies, the discount is based on a five percent interest rate and the companies' own payout patterns. For Pennsylvania companies, the statute has specified discount factors for accident years 2001 and prior, which are based on a six percent interest rate and an industry payout pattern. For accident years 2002 and subsequent, the discount is based on the payout patterns and investment yields of the companies. Certain other liability occurrence and products liability occurrence business in AIRCO that was written by Commercial Insurance is discounted based on the yield of Department of the Treasury securities ranging from one to twenty years and the Commercial Insurance payout pattern for this business. The discount is comprised of the following: $733 million tabular discount for workers' compensation in Commercial Insurance; $1.7 billion non-tabular discount for workers' compensation in Commercial Insurance; $140 million non-tabular discount for other liability occurrence and products liability occurrence in AIRCO for Commercial Insurance business. Since 1998, AIRCO has assumed on a quota share basis certain general liability and products liability business written by Commercial Insurance, and the reserves for this business are carried on a discounted basis by AIRCO.

Quarterly Reserving Process

AIG believes that the net loss reserves are adequate to cover net losses and loss expenses as of September 30, 2009. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of September 30, 2009. In the opinion of management, such adverse development and resulting increase in reserves is not likely to have a material adverse effect on AIG's consolidated financial condition, although it could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period.

125

Table of Contents

The following table presents the reconciliation of net loss reserves:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net liability for unpaid claims and claims adjustment expense at beginning of period	**$ 65,770**	$ 72,331	**$ 72,455**	$ 69,288
Foreign exchange effect	**245**	(765)	**1,035**	(502)
Dispositions*	**(1,819)**	-	**(9,657)**	-
Losses and loss expenses incurred:				
Current year	**6,407**	9,723	**21,206**	26,364
Prior years, other than accretion of discount	**191**	(144)	**526**	(215)
Prior years, accretion of discount	**98**	79	**294**	255
Losses and loss expenses incurred	**6,696**	9,658	**22,026**	26,404
Losses and loss expenses paid	**6,019**	7,471	**20,986**	21,437
Net liability for unpaid claims and claims adjustment expense at end of period	**$ 64,873**	$ 73,753	**$ 64,873**	$ 73,753

* *Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009; and HSB was sold during the first quarter of 2009.*

The following tables summarize development, (favorable) or unfavorable, of incurred losses and loss expenses for prior years (other than accretion of discount):

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Prior Accident Year Development by Reporting Unit:				
General Insurance segment:				
Commercial Insurance	**$ 256**	$ (140)	**$ 482**	$ (276)
Foreign General Insurance	**(10)**	(49)	**(4)**	(65)
Total General Insurance segment	**246**	(189)	**478**	(341)
Noncore businesses:				
Transatlantic*	**-**	1	**(5)**	2
21st Century*	**-**	(4)	**(17)**	80
Mortgage Guaranty	**(55)**	69	**73**	127
HSB*	**-**	(21)	**(3)**	(46)
Total noncore businesses	**(55)**	45	**48**	163

Asbestos settlements		**-**		-		**-**		(37)
Prior years, other than accretion of discount	**$**	**191**	$	(144)	**$**	**526**	$	(215)

*

Transatlantic was deconsolidated during the second quarter of 2009, 21st Century was sold in the third quarter of 2009 and HSB was sold during the first quarter of 2009.

126

(in millions)	Calendar Year 2009	2008
Prior Accident Year Development by Accident Year:		
Accident Year		
2008	**$ 247**	
2007	**(76)**	$ (259)
2006	**(200)**	(388)
2005	**(11)**	(396)
2004	**44**	(269)
2003	**7**	66
2002 and prior	**515**	1,031
Prior years, other than accretion of discount	**$ 526**	$ (215)

In determining the quarterly loss development from prior accident years, AIG conducts analyses to determine the change in estimated ultimate loss for each accident year for each profit center. For example, if loss emergence for a profit center is different than expected for certain accident years, AIG's actuaries examine the indicated effect such emergence would have on the reserves of that profit center. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the profit center's reserves for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each profit center, as appropriate, in the three-month period ended September 30, 2009 to determine the loss development from prior accident years for the three-month period ended September 30, 2009. As part of its reserving process, AIG also considers notices of claims received with respect to emerging issues, such as those related to the U.S. mortgage and housing market.

2009 Net Loss Development

Quarterly Development

In the three-month period ended September 30, 2009, General Insurance net loss development from prior accident years, excluding $98 million from accretion of loss reserve discount, was adverse by approximately $246 million due to adverse development of:

- $115 million relating to excess casualty business within Commercial Insurance, primarily from accident years 2005 and prior;

- $68 million pertaining to certain reinsurance commutations within Commercial Insurance relating to accident years 2002 and prior;

- $39 million pertaining to excess workers compensation business within Commercial Insurance relating to accident years 2002 and prior; and

- $29 million pertaining to asbestos within Commercial Insurance and Foreign General, largely attributable to one defendant.

AIG's total net loss development from prior accident years for the three-month period ended September 30, 2009, including noncore businesses, was adverse by approximately $191 million. The noncore businesses prior year development includes $55 million of favorable development from Mortgage Guaranty.

127

Year-to-date Development

In the nine-month period ended September 30, 2009, General Insurance net loss development from prior accident years, excluding $294 million from accretion of loss reserve discount, was adverse by approximately $478 million due to adverse development of:

- $420 million relating to excess casualty business within Commercial Insurance, related to accident years 2006 and prior, which was attributable to loss emergence significantly in excess of the historical loss emergence pattern for this class of business;
- $115 million pertaining to certain reinsurance commutations within Commercial insurance, relating to accident years 2002 and prior;
- $80 million pertaining to a surety claim within Commercial Insurance from accident year 2007;
- $75 million pertaining to asbestos claims from accident years 2002 and prior, primarily relating to Commercial Insurance; and
- $50 million pertaining to excess workers compensation within Commercial Insurance, relating to accident years 2002 and prior.

The adverse development was partially offset by favorable development of:

- $150 million from Lexington within Commercial Insurance, pertaining to $270 million favorable development from Lexington's healthcare, CAT excess, and casualty businesses related primarily to accident years 2002 through 2007, offset by approximately $120 million of adverse development in Lexington's property businesses relating primarily to accident year 2008; and
- $170 million relating to loss sensitive business within Commercial Insurance; however, Commercial Insurance underwriting result did not benefit due to a corresponding reduction to net earned premiums.

AIG's total net loss development from prior accident years for the nine-month period ended September 30, 2009, including noncore businesses, was adverse by approximately $526 million. Mortgage Guaranty accounted for approximately $73 million of adverse development, relating primarily to accident year 2008.

2008 Net Loss Development

Quarterly Development

In the three-month period ended September 30, 2008, General Insurance net loss development from prior accident years, excluding $79 million from accretion of loss reserve discount, was favorable by approximately $189 million due to favorable development of:

- $140 million from business written within Commercial Insurance by Lexington, including casualty, catastrophic casualty, healthcare and program business;

$120 million from accident years 2001 and prior as the result of the commutation of one large account within Commercial Insurance; and

$105 million as a result of an update in the third quarter of 2008 of AIG's ground up projections of claims exposure for the D&O and related management liability classes of business within AIG Executive Liability. AIG utilized the ultimate loss estimates resulting from these claims projections as a benchmark in determining the appropriate loss reserves for this business. The third quarter results reflected approximately $185 million of favorable development from accident years 2004 through 2006, partially offset by approximately $80 million of adverse development from accident years 2000 through 2002.

The favorable development was partially offset by adverse development of $170 million from excess casualty business within Commercial Insurance, primarily from accident years 2003 and prior. This adverse development relating to excess casualty reflected continued emergence of latent claims such as construction defect, product aggregate, and pharmaceutical related exposures, as well as higher than expected large loss activity from these accident years.

AIG's total net loss development from prior accident years for the three-month period ended September 30, 2008, including noncore businesses, was favorable by approximately $144 million. The noncore business prior year development included $69 million of adverse development from Mortgage Guaranty in the three-month period ended September 30, 2008, reflecting the adverse claims environment, including $77 million of adverse development from accident year 2007.

Year-to-date Development

In the nine-month period ended September 30, 2008, General Insurance net loss development from prior accident years was favorable by approximately $341 million, including $339 million of favorable development relating to loss sensitive business in the first three months of 2008 (which was offset by an equal amount of negative earned premium development), and excluding $255 million from accretion of loss reserve discount. Excluding both the favorable development relating to loss sensitive business and accretion of loss reserve discount, General Insurance net loss development from prior accident years in the nine-month period ended September 30, 2008, was favorable by $2 million. The overall favorable development of $341 million consisted of favorable development of:

- $339 million from loss sensitive business written by commercial casualty within Commercial Insurance;
- $400 million from business written by Lexington, including healthcare, catastrophic casualty, casualty and program businesses; and
- $250 million from accident years 2004 and 2005 from executive liability business within Commercial Insurance, partially offset by adverse development from earlier accident years.

The favorable development was partially offset by adverse development of approximately $485 million from excess casualty business within Commercial Insurance, reflecting a variety of other latent claims and large losses. AIG's exposure to these latent exposures was reduced after 2002 due to significant changes in policy terms and conditions as well as underwriting guidelines. The excess casualty developments included approximately $175 million from claims related to MTBE, a gasoline additive, on claims from accident years 2000 and prior.

AIG's total net loss development from prior accident years for the nine-month period ended September 30, 2008, including noncore businesses, was favorable by approximately $215 million. The noncore business prior year development included adverse development from 21st Century and Mortgage Guaranty. Mortgage Guaranty contributed $126 million of overall adverse development in the nine-month period ended September 30, 2008, with $119 million relating to accident year 2007.

Asbestos and Environmental Reserves

The estimation of loss reserves relating to asbestos and environmental claims on insurance policies written many years ago is subject to greater uncertainty than other types of claims due to inconsistent court decisions as well as judicial interpretations and legislative actions that in some cases have tended to broaden coverage beyond the original intent of such policies and in others have expanded theories of liability.

As described more fully in the 2008 Form 10-K, AIG's reserves relating to asbestos and environmental claims reflect a comprehensive ground-up analysis. In the nine-month period ended September 30, 2009, a moderate amount of adverse incurred loss development pertaining to asbestos was reflected in the table that follows. This development was primarily attributable to several large defendants.

Table of Contents

A summary of reserve activity, including estimates for applicable IBNR, relating to asbestos and environmental claims separately and combined appears in the table below. The vast majority of such claims arise from policies written in 1984 and prior years. The current environmental policies that AIG underwrites on a claims-made basis have been excluded from the table below.

	Nine Months Ended September 30,			
	2009		2008	
(in millions)	Gross	Net	Gross	Net
Asbestos:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 3,443**	**$ 1,200**	$ 3,864	$ 1,454
Dispositions[(a)]	**(84)**	**(21)**	-	-
Losses and loss expenses incurred[(b)]	**184**	**78**	76	18
Losses and loss expenses paid[(b)]	**(473)**	**(129)**	(540)	(228)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 3,070**	**$ 1,128**	$ 3,400	$ 1,244
Environmental:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 417**	**$ 194**	$ 515	$ 237
Dispositions[(a)]	**(37)**	**(7)**	-	-
Losses and loss expenses incurred[(b)]	**2**	**-**	(40)	1
Losses and loss expenses paid[(b)]	**(37)**	**(23)**	(39)	(28)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 345**	**$ 164**	$ 436	$ 210
Combined:				
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 3,860**	**$ 1,394**	$ 4,379	$ 1,691
Dispositions[(a)]	**(121)**	**(28)**	-	-
Losses and loss expenses incurred[(b)]	**186**	**78**	36	19
Losses and loss expenses paid[(b)]	**(510)**	**(152)**	(579)	(256)
Liability for unpaid claims and claims adjustment expense at end of period	**$ 3,415**	**$ 1,292**	$ 3,836	$ 1,454

(a) *Includes reserves for Transatlantic, which was deconsolidated during the second quarter of 2009 and 21st Century which was sold in the third quarter of 2009.*

(b) *All amounts pertain to policies underwritten in prior years, primarily to policies issued in 1984 and prior years.*

The gross and net IBNR included in the liability for unpaid claims and claims adjustment expense, relating to asbestos and environmental claims separately and combined were estimated as follows:

Nine Months Ended September 30,	2009		2008	
(in millions)	Gross	Net	Gross	Net
Asbestos	**$ 1,924**	**$ 856**	$ 2,211	$ 989
Environmental	**177**	**77**	259	111
Combined	**$ 2,101**	**$ 933**	$ 2,470	$ 1,100

A summary of asbestos and environmental claims count activity was as follows:

Nine Months Ended	2009			2008		
September 30,	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	**5,780**	**6,674**	**12,454**	6,563	7,652	14,215
Claims during year:						
Opened	**465**	**860**	**1,325**	514	864	1,378
Settled	**(205)**	**(154)**	**(359)**	(130)	(105)	(235)
Dismissed or otherwise resolved	**(602)**	**(1,256)**	**(1,858)**	(823)	(1,561)	(2,384)
Claims at end of period	**5,438**	**6,124**	**11,562**	6,124	6,850	12,974

Table of Contents

Survival Ratios   Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at September 30, 2009 and 2008. The survival ratio is derived by dividing the current carried loss reserve by the average payments for the three most recent calendar years for these claims. Therefore, the survival ratio is a simplistic measure estimating the number of years it would be before the current ending loss reserves for these claims would be paid off using recent year average payments. The September 30, 2009 survival ratio is lower than the ratio at September 30, 2008 because the more recent periods included in the rolling average reflect higher claims payments. In addition, AIG's survival ratio for asbestos claims was negatively affected by certain favorable settlements during 2008 and 2007. These settlements reduced gross and net asbestos survival ratios at September 30, 2009 by approximately 0.8 years and 1.9 years, respectively, and reduced gross and net asbestos survival ratios at September 30, 2008 by approximately 1.2 years and 2.7 years, respectively. Many factors, such as aggressive settlement procedures, mix of business and level of coverage provided, have a significant effect on the amount of asbestos and environmental reserves and payments and the resultant survival ratio. Moreover, as discussed above, the primary basis for AIG's determination of its reserves is not survival ratios, but instead the ground-up and top-down analysis. Thus, caution should be exercised in attempting to determine reserve adequacy for these claims based simply on this survival ratio.

AIG's survival ratios for asbestos and environmental claims, separately and combined, were based upon a three-year average payment and were as follows:

Nine Months Ended September 30,	**Gross**	**Net**
2009		
Survival ratios:		
Asbestos	4.5	3.6
Environmental	4.3	3.3
Combined	4.4	3.6
2008		
Survival ratios:		
Asbestos	5.3	4.1
Environmental	4.6	3.7
Combined	5.2	4.0

Life Insurance & Retirement Services Operations

AIG's Life Insurance & Retirement Services operations offer a wide range of insurance and retirement savings products both domestically and abroad.

AIG's Foreign Life Insurance & Retirement Services operations include insurance and investment-oriented products such as whole and term life, investment linked, universal life and endowments, personal accident and health products, group products including pension, life and health, and fixed and variable annuities. The Foreign Life Insurance & Retirement Services products are sold through independent producers, career agents, financial institutions and direct marketing channels.

AIG's Domestic Life Insurance operations offer a broad range of protection products, such as individual life insurance and group life and health products, including disability income products and payout annuities, which include single premium immediate annuities, structured settlements and terminal funding annuities. The Domestic Life Insurance products are sold through independent producers, career agents, financial institutions and direct marketing channels. Home service operations include an array of life insurance, accident and health and annuity products sold primarily through career agents.

AIG's Domestic Retirement Services operations include group retirement products, individual fixed and variable annuities sold through banks, broker-dealers and exclusive sales representatives, and annuity runoff operations, which include previously acquired "closed blocks" and other fixed and variable annuities largely sold through distribution relationships that have been discontinued.

AIG's Life Insurance & Retirement Services reports its operations through the following major internal reporting units and legal entities:

Foreign Life Insurance & Retirement Services

Japan and Other

- American Life Insurance Company (ALICO)
- AIG Star Life Insurance Co., Ltd. (AIG Star Life)
- AIG Edison Life Insurance Company (AIG Edison Life)

Asia

- American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited (AIA)
- Nan Shan Life Insurance Company, Ltd. (Nan Shan)
- American International Reinsurance Company Limited (AIRCO)
- The Philippine American Life and General Insurance Company (Philamlife)

Domestic Life Insurance

- American General Life Insurance Company (AIG American General)
- The United States Life Insurance Company in the City of New York (USLIFE)
- American General Life and Accident Insurance Company (AGLA)

Domestic Retirement Services

- The Variable Annuity Life Insurance Company (VALIC)
- Western National Life Insurance Company (formerly AIG Annuity Insurance Company) (Western National)
- SunAmerica Annuity and Life Assurance Company (SunAmerica)

Table of Contents

Life Insurance & Retirement Services Results

Life Insurance & Retirement Services results were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (loss)
Three Months Ended September 30, 2009					
Japan and Other	**$ 3,303**	**$ 2,093**	**$ (289)**	**$ 5,107**	**$ 379**
Asia	**3,319**	**1,730**	**307**	**5,356**	**775**
Total Foreign Life & Retirement Services	**6,622**	**3,823**	**18**	**10,463**	**1,154**
Domestic Life Insurance	**1,012**	**1,012**	**(329)**	**1,695**	**71**
Domestic Retirement Services	**218**	**1,437**	**(621)**	**1,034**	**56**
Total	**$ 7,852**	**$ 6,272**	**$ (932)**	**$ 13,192**	**$ 1,281**
Three Months Ended September 30, 2008					
Japan and Other	$ 3,664	$ 521	$ (1,619)	$ 2,566	$ (1,074)
Asia	3,695	(47)	(1,836)	1,812	(1,419)
Total Foreign Life & Retirement Services	7,359	474	(3,455)	4,378	(2,493)
Domestic Life Insurance	1,714	973	(4,391)	(1,704)	(3,911)
Domestic Retirement Services	281	898	(8,495)	(7,316)	(8,925)
Total	$ 9,354	$ 2,345	$ (16,341)	$ (4,642)	$ (15,329)
Percentage Increase/(Decrease) from Prior					

Year:					
Japan and Other	(10)%	302%	-%	99%	-%
Asia	(10)	-	-	196	-
Total Foreign Life & Retirement Services	(10)	-	-	139	-
Domestic Life Insurance	(41)	4	-	-	-
Domestic Retirement Services	(22)	60	-	-	-
Total	(16)%	167%	-%	-%	-%
Nine Months Ended September 30, 2009					
Japan and Other	**$ 9,901**	**$ 4,931**	**$ (1,848)**	**$ 12,984**	**$ 551**
Asia	**10,498**	**5,133**	**945**	**16,576**	**2,298**
Total Foreign Life & Retirement Services	**20,399**	**10,064**	**(903)**	**29,560**	**2,849**
Domestic Life Insurance	**3,253**	**2,765**	**(616)**	**5,402**	**310**
Domestic Retirement Services	**654**	**3,654**	**(2,236)**	**2,072**	**(1,945)**
Total	**$ 24,306**	**$ 16,483**	**$ (3,755)**	**$ 37,034**	**$ 1,214**
Nine Months Ended September 30, 2008					
Japan and Other	$ 11,049	$ 3,173	$ (2,391)	$ 11,831	$ (14)
Asia	11,448	1,911	(2,695)	10,664	(971)
Total Foreign Life & Retirement Services	22,497	5,084	(5,086)	22,495	(985)
Domestic Life Insurance	4,905	2,963	(7,055)	813	(5,786)
Domestic Retirement Services	855	3,687	(13,579)	(9,037)	(12,790)
Total	$ 28,257	$ 11,734	$ (25,720)	$ 14,271	$ (19,561)

Percentage Increase/(Decrease) from Prior Year:					
Japan and Other	(10)%	55%	-%	10%	-%
Asia	(8)	169	-	55	-
Total Foreign Life & Retirement Services	(9)	98	-	31	-
Domestic Life Insurance	(34)	(7)	-	-	-
Domestic Retirement Services	(24)	(1)	-	-	-
Total	(14)%	40%	-%	160%	-%

133

Table of Contents

The following table presents the gross insurance in force for Life Insurance & Retirement Services:

(in billions)	**September 30, 2009**	December 31, 2008
Foreign*	**$ 1,475**	$ 1,352
Domestic	**959**	1,026
Total	**$ 2,434**	$ 2,378

* *Includes an increase of $80.4 billion related to changes in foreign exchange rates at September 30, 2009.*

Quarterly Life Insurance & Retirement Services Results

Total revenues increased significantly in the three-month period ended September 30, 2009 compared to the same period in 2008, due to lower net realized capital losses and higher net investment income. Net investment income benefited from higher policyholder trading gains; income from partnerships, mutual funds and AIG's investment in ML II; and lower U.K. trading losses compared to the same period in 2008. See Consolidated Results Premiums and Other Considerations, Net Investment Income and Net Realized Capital Gains (Losses) for further discussion.

Operating income for the three-month period ended September 30, 2009 increased significantly compared to the same period in 2008 primarily due to the lower net realized capital losses and higher net investment income. Other items positively affecting the three-month periods were:

- Losses of $38 million in 2009 compared to losses of $501 million in 2008 related to trading gains (losses) and change in benefit reserves associated with investment-oriented products in the U.K.;
- partnership and mutual fund income, net of policyholder trading gains and participating policyholder share, of $174 million in 2009 compared to losses of $916 million in 2008, partially offset by lower equity dividends in Taiwan of $104 million in 2009 due to de-risking of the investment portfolio;
- an increase of $224 million in the fair value of the investment in ML II; and
- DAC and SIA charges and related reserve strengthening of $728 million in 2008 for Domestic Retirement Services.

These increases were partially offset by:

- actuarial charges for Foreign Life Insurance & Retirement Services related to unlocking of assumptions and changes in estimates of $202 million in 2009 compared to $38 million in 2008, including DAC charges in Korea due to higher than anticipated surrenders related to a specific product and charges of $91 million related to the continued project to increase standardization of AIG's actuarial systems and processes throughout the world;
- DAC and SIA benefit related to net realized capital gains of $32 million in 2009 compared to a DAC and SIA benefit of $478 million in 2008;

lower assets under management in the investment-oriented and retirement services portfolios; and

higher expenses related to restructuring activities, including a $91 million impairment charge in 2009 for capitalized costs in Japan related to the decision to terminate the previously scheduled merger of AIG Star Life and AIG Edison Life.

Year-to-Date Life Insurance & Retirement Services Results

Total revenues increased significantly in the nine-month period ended September 30, 2009 compared to the same period in 2008, primarily due to lower net realized capital losses and higher net investment income. Net investment income benefited from higher policyholder trading gains, lower partnership and mutual fund losses and lower U.K. trading losses. See Consolidated Results Premiums and Other Considerations, Net Investment Income and Net Realized Capital Gains (Losses) for further discussion.

Table of Contents

Life Insurance & Retirement Services reported a lower operating loss for the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to considerably lower net realized capital losses and:

- Losses of $60 million in 2009 compared to trading losses of $722 million in 2008 related to trading gains (losses) and change in benefit reserves associated with investment-oriented products in the U.K.;
- partnership and mutual fund losses, net of policyholder trading gains and participating policyholder share, of $23 million in 2009 compared to losses of $777 million in 2008; partially offset by lower equity dividends in Taiwan of $105 million in 2009 due to de-risking of the investment portfolio; and
- DAC and SIA unlocking and related reserve strengthening charges of $601 million in the first nine months of 2009 in the Domestic Retirement Services operations resulting from a reduction in the long-term growth rates assumptions used to determine DAC amortization and related to expected higher surrenders; the nine-month period ended September 30, 2008 included DAC and SIA charges and related reserve strengthening of $728 million.

These improvements were partially offset by:

- actuarial charges for Foreign Life Insurance & Retirement Services related to unlocking of assumptions and changes in estimates of $215 million in 2009 compared to $30 million in 2008, including DAC charges in Korea due to higher than anticipated surrenders related to a certain product and charges of $91 million related to the continued project to increase standardization of AIG's actuarial systems and processes throughout the world;
- DAC and SIA benefits related to net realized capital losses of $537 million in 2009 compared to $957 million in 2008;
- a $134 million loss recognition charge for the Philippine operations;
- decrease of $116 million in the fair value of the economic interest in ML II;
- lower investment margins due to de-risking activities and higher short-term liquidity; and
- higher expenses related to restructuring activities including a $91 million impairment charge in 2009 for capitalized costs in Japan related to the decision to terminate the previously scheduled merger of AIG Star Life and AIG Edison Life.

Foreign Life Insurance & Retirement Services Results

Foreign Life Insurance & Retirement Services results on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2009					
Life insurance	**$ 3,874**	**$ 2,257**	**$ 156**	**$ 6,287**	**$ 790**
Personal accident	**1,792**	**108**	**4**	**1,904**	**348**
Group products	**768**	**114**	**(51)**	**831**	**48**
Individual fixed annuities	**119**	**637**	**(91)**	**665**	**(17)**
Individual variable annuities	**69**	**707**	**-**	**776**	**(15)**
Total	**$ 6,622**	**$ 3,823**	**$ 18**	**$ 10,463**	**$ 1,154**
Three Months Ended September 30, 2008					
Life insurance	$ 4,282	$ 164	$ (3,078)	$ 1,368	$ (2,490)
Personal accident	1,788	124	(71)	1,841	323
Group products	962	124	(47)	1,039	83
Individual fixed annuities	221	621	(258)	584	(33)
Individual variable annuities	106	(559)	(1)	(454)	(376)
Total	$ 7,359	$ 474	$ (3,455)	$ 4,378	$ (2,493)
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	(10)%	-%	-%	360%	-%
Personal accident	-	(13)	-	3	8

Group products		(20)		(8)		-		(20)	(42)
Individual fixed annuities		(46)		3		-		14	-
Individual variable annuities		(35)		-		-		-	-
Total		(10)%		-%		-%		139%	-%
Nine Months Ended September 30, 2009									
Life insurance	**$**	**12,436**	**$**	**6,495**	**$**	**(24)**	**$**	**18,907**	**$ 1,851**
Personal accident		**5,266**		**317**		**(44)**		**5,539**	**1,042**
Group products		**2,208**		**284**		**(58)**		**2,434**	**211**
Individual fixed annuities		**307**		**1,840**		**(780)**		**1,367**	**(281)**
Individual variable annuities		**182**		**1,128**		**3**		**1,313**	**26**
Total	**$**	**20,399**	**$**	**10,064**	**$**	**(903)**	**$**	**29,560**	**$ 2,849**
Nine Months Ended September 30, 2008									
Life insurance	$	13,428	$	2,896	$	(4,395)	$	11,929	$ (2,007)
Personal accident		5,334		325		(137)		5,522	1,086
Group products		2,960		521		(88)		3,393	289
Individual fixed annuities		429		1,850		(486)		1,793	69
Individual variable annuities		346		(508)		20		(142)	(422)
Total	$	22,497	$	5,084	$	(5,086)	$	22,495	$ (985)
Percentage Increase/(Decrease) from Prior Year:									
Life insurance		(7)%		124%		-%		58%	-%
Personal accident		(1)		(2)		-		-	(4)
Group products		(25)		(45)		-		(28)	(27)
Individual fixed		(28)		(1)		-		(24)	-

annuities					
Individual variable annuities	(47)	-	-	-	-
Total	(9)%	98%	-%	31%	-%

136

Table of Contents

AIG transacts business in most major foreign currencies and therefore premiums and other considerations reported in U.S. dollars vary by volume and changes in foreign currency translation rates.

The following table summarizes the effect of changes in foreign currency exchange rates on the growth of the Foreign Life Insurance & Retirement Services premiums and other considerations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	**2008**	**2009**	**2008**
Increase (decrease) in original currency*	**(8.2)%**	5.5%	**(6.3)%**	6.6%
Foreign exchange effect	**(1.8)**	7.6	**(3.0)**	8.1
Increase (decrease) as reported in U.S. dollars	**(10.0)%**	13.1%	**(9.3)%**	14.7%

*

Computed using a constant exchange rate each period.

Quarterly Foreign Life Insurance & Retirement Services Results

Total revenues for Foreign Life Insurance & Retirement Services in the three-month period ended September 30, 2009 increased significantly compared to the same period in 2008 primarily due to net realized capital gains of $18 million in the three-month period ended September 30, 2009 compared to net realized capital losses of $3.5 billion in the same period of 2008, along with higher policyholder trading gains, partially offset by lower premiums and other considerations and the effect of the sale of the Brazil operations. See Consolidated Results Premiums and Other Considerations; Net Investment Income; and Net Realized Capital Gains (Losses).

Operating income in the three-month period ended September 30, 2009 increased significantly compared to the same period in 2008 primarily due to the change to net realized capital gains from losses shown above and:

- Losses of $38 million in 2009 compared to trading losses of $501 million in 2008 related to trading gains (losses) and change in benefit reserves associated with investment-oriented products in the U.K.; and

- partnership and mutual fund income, net of policyholder trading gains and policyholder participating share, of $74 million in 2009 compared to losses of $380 million in 2008 partially offset by lower equity dividends of $104 million in Taiwan in 2009 due to de-risking of the investment portfolio.

These increases were partially offset by:

- actuarial charges related to unlocking of assumptions and changes in estimates of $202 million in 2009 compared to $38 million for 2008, including DAC charges in Korea in 2009 due to higher than anticipated surrenders related to a certain product and the actuarial charges of $91 million discussed above;

- lower assets under management in investment-linked and retirement services portfolios in the U.K. and Japan;

- the sale of the Brazil operations on November 30, 2008; and higher expenses due to restructuring activities, including the $91 million impairment of capitalized costs in Japan discussed above.

137

Table of Contents

Year-to-Date Foreign Life Insurance & Retirement Services Results

Total revenues for Foreign Life Insurance & Retirement Services in the nine-month period ended September 30, 2009 increased compared to the same period in 2008 primarily due to lower net realized capital losses along with higher policyholder trading gains, partially offset by lower premiums and other considerations and the effect of the sale of the Brazil operations. See Consolidated Results Premiums and Other Considerations; Net Investment Income; and Net Realized Capital Gains (Losses).

Operating income in the nine-month period ended September 30, 2009 increased compared to the same period in 2008 due primarily to lower net realized capital losses and:

- Losses of $60 million in 2009 compared to trading losses of $722 million in 2008 related to trading gains (losses) and change in benefit reserves associated with investment-oriented products in the U.K.;
- DAC and SIA benefits of $377 million related to net realized capital losses in 2009 compared to $107 million in 2008;
- partnership and mutual fund income, net of policyholder trading gains and policyholder participating share, of $79 million in 2009 compared to losses of $353 million in 2008; partially offset by lower equity dividends of $105 million in Taiwan in 2009 due to de-risking of the investment portfolio.

These increases were partially offset by:

- a $134 million loss recognition charge related to the Philippine operations;
- actuarial charges related to unlocking of assumptions and changes in estimates of $215 million in 2009 compared to $30 million in 2008, including DAC charges in Korea in 2009 due to higher than anticipated surrenders related to a certain product and the actuarial charges of $91 million discussed above;
- lower assets under management in investment-linked and retirement services portfolios in the U.K., Japan and Asia;
- the sale of the Brazil operations on November 30, 2008; and
- higher expenses due to restructuring activities, including the $91 million impairment of capitalized costs in Japan discussed above.

Foreign Life Insurance & Retirement Services Sales and Deposits

First year premium, single premium and annuity deposits for Foreign Life Insurance & Retirement Services were as follows:

			Percentage Decrease	
(in millions)	**2009**	**2008***	**U.S. $**	**Original Currency**
Three Months Ended September 30,				

First year premium	**$**	**1,089**	$ 1,255	(13)%	(11)%
Single premium		**855**	2,752	(69)	(67)
Annuity deposits		**660**	4,499	(85)	(85)
Nine Months Ended September 30,					
First year premium	**$**	**3,131**	$ 3,784	(17)%	(14)%
Single premium		**2,047**	9,517	(78)	(77)
Annuity deposits		**1,898**	16,690	(89)	(88)

*

Excludes divested operations.

138

Quarterly Foreign Life Insurance & Retirement Services Sales and Deposits

First year premium sales in the three-month period ended September 30, 2009 increased slightly compared to the first and second quarters of 2009 but declined compared to the same period in 2008. The sequential increases stemmed primarily from Asia where sales of investment-linked life insurance products have improved. First year premium sales for Japan have declined compared to the same period in 2008 primarily due to the phase-out of sales incentives and uncertainty related to restructuring activities. First year premium sales were also negatively affected by foreign exchange translation.

Similar to first year premium sales, single premium sales in the three-month period ended September 30, 2009 increased compared to the first and second quarters of 2009 but declined significantly compared to the same period in 2008. The sequential increases reflected improvements in Japan's life insurance and personal accident sales and Singapore's life insurance sales. The single premium sales decline compared to the three-month period ended September 30, 2008 was primarily due to lower guaranteed income bond deposits in the U.K. resulting from poor market conditions and the effect of the adverse publicity surrounding AIG. This decline was partially offset by higher single premium sales in Asia, which increased compared to the same period in 2008, reflecting strong new business growth, particularly in Singapore.

Annuity deposits decreased significantly in the three-month period ended September 30, 2009 compared to the same period in 2008 primarily due to the decline in individual variable annuity deposits. Variable annuity deposits in the U.K. decreased significantly compared to the three-month period ended September 30, 2008 resulting from declines in the U.K. Premier Access Bond product following significant surrender activity as a result of AIG events. Adverse publicity surrounding AIG and the uncertainty of AIG's Japan life operations restructuring continued to negatively affect deposits in Japan during the three-month period ended September 30, 2009 due to the suspension of sales by banks. While some banks in Japan have resumed sales of annuity products, most have not. AIG has, therefore, focused its efforts to sell annuity deposit products through agents.

Year-to-Date Foreign Life Insurance & Retirement Services Sales and Deposits

First year premium sales in the nine-month period ended September 30, 2009 declined compared to the same period in 2008 primarily due to decreases in life insurance and personal accident sales which were partially offset by higher group products sales. Life insurance sales of investment-linked products in Asia were adversely affected by equity market performance and the negative effect of foreign exchange translation. Life insurance sales in Japan increased as a result of sales incentives and the positive effect of foreign exchange translation while personal accident sales declined. Group product sales increased primarily due to large group cases in Australia.

Single premium sales in the nine-month period ended September 30, 2009 declined significantly compared to the same period in 2008 primarily due to lower guaranteed income bond deposits in the U.K. resulting from poor market conditions and the effect of the adverse publicity surrounding AIG. In Japan, single premium sales declined primarily due to the temporary suspension of sales by banks. Single premium sales also decreased in Asia reflecting customers concerns about equity markets performance earlier in the year.

Annuity deposits decreased significantly in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to the decline in individual variable annuity deposits in the U.K. and individual fixed annuity deposits in Japan. Investment-linked deposits in the U.K. decreased significantly in the nine-month period ended September 30, 2009 resulting from declines in the U.K. Premier Access Bond product following significant surrender activity as a result of AIG events. Adverse publicity surrounding AIG and the uncertainty of AIG's Japan life operations restructuring continued to negatively affect deposits in Japan during the first nine months of 2009 due to the suspension of sales by banks.

Table of Contents

Domestic Life Insurance Results

Domestic Life Insurance results, presented on a sub-product basis were as follows:

(in millions)	Premiums and Other Considerations	Net Investment Income	Net Realized Capital Gains (Losses)	Total Revenues	Operating Income (Loss)
Three Months Ended September 30, 2009					
Life insurance	**$ 551**	**$ 420**	**$ (306)**	**$ 665**	**$ (60)**
Home service	**181**	**164**	**12**	**357**	**92**
Group life/health	**180**	**48**	**(9)**	**219**	**8**
Payout annuities*	**94**	**292**	**(1)**	**385**	**28**
Individual fixed and runoff annuities	**6**	**88**	**(25)**	**69**	**3**
Total	**$ 1,012**	**$ 1,012**	**$ (329)**	**$ 1,695**	**$ 71**
Three Months Ended September 30, 2008					
Life insurance	$ 667	$ 331	$ (3,471)	$ (2,473)	$ (3,176)
Home service	189	161	(577)	(227)	(486)
Group life/health	211	49	(64)	196	(70)
Payout annuities*	639	327	(211)	755	(154)
Individual fixed and runoff annuities	8	105	(68)	45	(25)
Total	$ 1,714	$ 973	$ (4,391)	$ (1,704)	$ (3,911)
Percentage Increase (Decrease) from Prior Year:					
Life insurance	(17)%	27%	-%	-%	-%

Home service	(4)	2	-	-	-
Group life/health	(15)	(2)	-	12	-
Payout annuities	(85)	(11)	-	(49)	-
Individual fixed and runoff annuities	(25)	(16)	-	53	-
Total	(41)%	4%	-%	-%	-%
Nine Months Ended September 30, 2009					
Life insurance	**$ 1,775**	**$ 930**	**$ (356)**	**$ 2,349**	**$ 82**
Home service	**546**	**459**	**(82)**	**923**	**125**
Group life/health	**573**	**148**	**(36)**	**685**	**26**
Payout annuities*	**324**	**934**	**(88)**	**1,170**	**50**
Individual fixed and runoff annuities	**35**	**294**	**(54)**	**275**	**27**
Total	**$ 3,253**	**$ 2,765**	**$ (616)**	**$ 5,402**	**$ 310**
Nine Months Ended September 30, 2008					
Life insurance	$ 1,877	$ 1,069	$ (5,636)	$ (2,690)	$ (4,933)
Home service	563	477	(915)	125	(660)
Group life/health	633	144	(91)	686	(64)
Payout annuities*	1,797	950	(266)	2,481	(99)
Individual fixed and runoff annuities	35	323	(147)	211	(30)
Total	$ 4,905	$ 2,963	$ (7,055)	$ 813	$ (5,786)
Percentage Increase/(Decrease) from Prior Year:					
Life insurance	(5)%	(13)%	-%	-%	-%
Home service	(3)	(4)	-	-	-
Group life/health	(9)	3	-	-	-

Payout annuities	(82)	(2)	-	(53)	-
Individual fixed and runoff annuities	-	(9)	-	30	-
Total	(34)%	(7)%	-%	-%	-%

*

Premiums and other considerations include structured settlements, single premium immediate annuities and terminal funding annuities.

140

Table of Contents

Quarterly Domestic Life Insurance Results

Total revenues for Domestic Life Insurance increased in the three-month period ended September 30, 2009 compared to the same period in 2008 primarily due to lower net realized capital losses of $329 million in the three-month period ended September 30, 2009 compared to losses of $4.4 billion in 2008 and higher net investment income, partially offset by lower premiums and other considerations. See Results of Operations Consolidated Results Premiums and Other Considerations; Net Investment Income; and Net Realized Capital Losses and Investments.

Domestic Life Insurance reported operating income in the three-month period ended September 30, 2009 of $71 million compared to an operating loss of $3.9 billion in the same period in 2008 due to significantly lower other-than-temporary impairments and higher net investment income partially offset by lower premiums and other considerations due to lower payout annuities, the sale of AIG Life Canada and higher DAC amortization due to lower other-than-temporary impairment charges. Higher net investment income was primarily due to a $78 million increase in the fair value of the investment in ML II, partially offset by reduced overall investment yields from increased levels of short-term investments and lower partnership income.

Year-to-Date Domestic Life Insurance Results

Total revenues for Domestic Life Insurance increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to considerably lower net realized capital losses. See Results of Operations Consolidated Results Premiums and Other Considerations; Net Investment Income; and Net Realized Capital Losses and Investments.

Domestic Life Insurance reported operating income in the nine-month period ended September 30, 2009 of $310 million compared to an operating loss of $5.8 billion in the same period in 2008 due principally to significantly lower other-than-temporary impairments. Operating income was adversely affected by lower net investment income due to reduced overall investment yields from increased levels of short-term investments, a current period decline of $40 million in the fair value of the investment in ML II and decreases in premiums and other considerations due to lower payout annuities and the sale of AIG Life Canada.

Domestic Life Insurance Sales and Deposits

Domestic Life Insurance sales and deposits by product* were as follows:

(in millions)	Three Months Ended September 30, 2009	2008	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2009	2008	Percentage Increase/ (Decrease)
Life insurance						
Periodic premium by product:						
Universal life	**$ 9**	$ 42	(79)%	**$ 39**	$ 135	(71)%
Variable universal life	**1**	5	(80)	**9**	38	(76)
Term life	**16**	55	(71)	**57**	162	(65)
Whole life/other	**1**	-	-	**2**	2	-
Total periodic premiums by product	**27**	102	(74)	**107**	337	(68)
Unscheduled and single deposits	**5**	47	(89)	**55**	207	(73)
Total life insurance	**32**	149	(79)	**162**	544	(70)
Home service						
Life insurance and accident and health	**23**	25	(8)	**61**	69	(12)
Fixed annuities	**27**	54	(50)	**124**	123	1
Unscheduled and single deposits	**4**	7	(43)	**13**	17	(24)
Total home service	**54**	86	(37)	**198**	209	(5)
Group life/health	**10**	25	(60)	**55**	88	(38)
Payout annuities	**224**	774	(71)	**659**	1,896	(65)
Individual fixed and runoff annuities	**191**	361	(47)	**585**	698	(16)
Total sales and deposits	**$ 511**	$ 1,395	(63)%	**$ 1,659**	$ 3,435	(52)%

* *Excludes divested operations. Life insurance sales include periodic premium from new business expected to be collected over a one-year period and unscheduled and single premiums from new and existing policyholders. Sales of group accident and health insurance represent annualized first year premium from new policies. Annuity sales represent deposits from new and existing policyholders.*

Total Domestic Life Insurance sales and deposits decreased in the three- and nine-month periods ended September 30, 2009 compared to the same periods in 2008 primarily due to lower payout annuities and life insurance premiums. Payout annuities sales and life insurance premiums decreased primarily due to lower financial strength ratings and the lingering effects of negative publicity.

Domestic Retirement Services Results

Domestic Retirement Services results, presented on a sub-product basis were as follows:

(in millions)		Premiums and Other Considerations		Net Investment Income		Net Realized Capital Gains (Losses)		Total Revenues		Operating Income (Loss)
Three Months Ended September 30, 2009										
Group retirement products	**$**	**83**	**$**	**550**	**$**	**(215)**	**$**	**418**	**$**	**58**
Individual fixed annuities		**10**		**790**		**(272)**		**528**		**(28)**
Individual variable annuities		**119**		**37**		**(104)**		**52**		**56**
Individual annuities runoff*		**6**		**60**		**(30)**		**36**		**(30)**
Total	**$**	**218**	**$**	**1,437**	**$**	**(621)**	**$**	**1,034**	**$**	**56**
Three Months Ended September 30, 2008										
Group retirement products	$	102	$	307	$	(2,533)	$	(2,124)	$	(2,487)
Individual fixed annuities		26		499		(5,209)		(4,684)		(5,239)
Individual variable annuities		150		14		(375)		(211)		(830)
Individual annuities runoff*		3		78		(378)		(297)		(369)
Total	$	281	$	898	$	(8,495)	$	(7,316)	$	(8,925)
Percentage Increase/(Decrease) from Prior Year:										
Group retirement products		(19)%		79%		-%		-%		-%

Individual fixed annuities		(62)		58		-		-		-
Individual variable annuities		(21)		164		-		-		-
Individual annuities runoff		100		(23)		-		-		-
Total		(22)%		60%		-%		-%		-%
Nine Months Ended September 30, 2009										
Group retirement products	**$**	**237**	**$**	**1,381**	**$**	**(866)**	**$**	**752**	**$**	**(374)**
Individual fixed annuities		**69**		**1,995**		**(1,271)**		**793**		**(967)**
Individual variable annuities		**335**		**98**		**55**		**488**		**(451)**
Individual annuities runoff*		**13**		**180**		**(154)**		**39**		**(153)**
Total	**$**	**654**	**$**	**3,654**	**$**	**(2,236)**	**$**	**2,072**	**$**	**(1,945)**
Nine Months Ended September 30, 2008										
Group retirement products	$	320	$	1,289	$	(4,213)	$	(2,604)	$	(3,679)
Individual fixed annuities		66		2,075		(8,046)		(5,905)		(7,469)
Individual variable annuities		459		83		(670)		(128)		(1,017)
Individual annuities runoff*		10		240		(650)		(400)		(625)
Total	$	855	$	3,687	$	(13,579)	$	(9,037)	$	(12,790)
Percentage Increase/(Decrease) from Prior Year:										
Group retirement products		(26)%		7%		-%		-%		-%
Individual fixed annuities		5		(4)		-		-		-
		(27)		18		-		-		-

Individual variable annuities					
Individual annuities runoff	30	(25)	-	-	-
Total	(24)%	(1)%	-%	-%	-%

*

Primarily represents runoff annuity business sold through discontinued distribution relationships.

Quarterly Domestic Retirement Services Results

Domestic Retirement Services reported operating income in the three-month period ended September 30, 2009 compared to an operating loss in the same period in 2008 primarily due to lower net realized capital losses principally due to lower other-than-temporary impairment charges, higher partnership income of $652 million, a $141 million increase in the fair value of the investment in ML II and favorable DAC amortization and reserve adjustments

143

recorded for individual variable annuities due to positive markets returns in the quarter. In addition, the third quarter of 2008 results included DAC and SIA unlockings and related reserve strengthening of $728 million and impairments of $6.2 billion related to AIG's U.S. securities lending program which was terminated in December 2008.

These increases were partially offset by $376 million lower DAC and SIA benefits relating to net realized capital losses in the three-month period ended September 30, 2009 compared to the same period in 2008. Current period results were also negatively affected by increased levels of low yielding short-term investments, decreases in fee income and lower assets under management. See Consolidated Results Net Investment Income; and Net Realized Capital Losses for further discussion.

Year-to-Date Domestic Retirement Services Results

Domestic Retirement Services reported lower operating losses in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to considerably lower net realized capital losses arising principally from lower other-than-temporary impairment charges and a $479 million decrease in the fair value of embedded policy derivative liabilities, net of related economic hedges, driven by improved bond and equity market conditions. The results for the nine-month period ended September 30, 2008 included impairments of $9.5 billion related to AIG's U.S. securities lending program which was terminated in December 2008. Income from partnership investments increased to $57 million in the nine-month period ended September 30, 2009 compared to losses of $434 million for the same period in 2008. Results also improved due to negative DAC and SIA unlockings and related reserve strengthening being $126 million lower for the nine-month period ended September 30, 2009, compared to the same period in 2008. The 2009 unlockings primarily were the result of reductions in the long-term growth assumptions for group retirement products and individual variable annuities, deteriorating equity market conditions early in the year and projected increases in surrenders for individual fixed annuities. The 2008 unlockings primarily related to deteriorating equity market conditions for individual variable annuities and projected increases in surrenders for all three product lines.

The improvement in operating income was partially offset by reduced DAC and SIA benefits of $649 million from lower net realized capital losses for the nine-month period ended September 30, 2009, compared to the same period in 2008. Current year results were also negatively affected by a $73 million decline in the fair value of the economic interest in ML II, increased levels of low yielding short-term investments, decreases in fee income and lower assets under management. See Consolidated Results Net Investment Income; and Net Realized Capital Losses for further discussion.

Table of Contents

Domestic Retirement Services Sales and Deposits

The following table presents the account value roll forward for Domestic Retirement Services by product:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Group retirement products				
Balance at beginning of period	**$ 58,338**	$ 66,189	**$ 56,861**	$ 68,109
Deposits annuities	**1,211**	1,450	**3,550**	4,375
Deposits mutual funds	**314**	379	**1,027**	1,174
Total Deposits	**1,525**	1,829	**4,577**	5,549
Surrenders and other withdrawals	**(1,382)**	(1,637)	**(4,730)**	(4,409)
Death benefits	**(65)**	(56)	**(194)**	(179)
Net inflows (outflows)	**78**	136	**(347)**	961
Change in fair value of underlying investments, interest credited, net of fees	**4,352**	(3,227)	**6,254**	(5,972)
Balance at end of period	**$ 62,768**	$ 63,098	**$ 62,768**	$ 63,098
Individual fixed annuities				
Balance at beginning of period	**$ 46,124**	$ 52,077	**$ 48,394**	$ 50,508
Deposits	**1,148**	1,561	**3,434**	6,036
Surrenders and other withdrawals*	**(1,158)**	(2,096)	**(5,716)**	(5,136)
Death benefits*	**(392)**	(400)	**(1,325)**	(1,224)
Net inflows (outflows)	**(402)**	(935)	**(3,607)**	(324)
Change in fair value of underlying investments, interest credited, net of fees	**469**	481	**1,404**	1,439
Balance at end of period	**$ 46,191**	$ 51,623	**$ 46,191**	$ 51,623
Individual variable annuities				
Balance at beginning of period	**$ 22,601**	$ 30,667	**$ 23,593**	$ 33,108
Deposits	**176**	1,051	**640**	3,190
Surrenders and other withdrawals	**(619)**	(1,254)	**(1,972)**	(3,127)
Death benefits	**(88)**	(131)	**(301)**	(381)
Net inflows (outflows)	**(531)**	(334)	**(1,633)**	(318)
Change in fair value of underlying investments, interest credited, net of fees	**2,676**	(2,804)	**2,786**	(5,261)
Balance at end of period	**$ 24,746**	$ 27,529	**$ 24,746**	$ 27,529
Total Domestic Retirement Services				
Balance at beginning of period	**$ 127,063**	$ 148,933	**$ 128,848**	$ 151,725
Deposits	**2,849**	4,441	**8,651**	14,775
Surrenders and other withdrawals*	**(3,159)**	(4,987)	**(12,418)**	(12,672)
Death benefits*	**(545)**	(587)	**(1,820)**	(1,784)

Net inflows (outflows)		**(855)**		(1,133)		**(5,587)**		319
Change in fair value of underlying investments, interest credited, net of fees		**7,497**		(5,550)		**10,444**		(9,794)
Balance at end of period, excluding runoff		**133,705**		142,250		**133,705**		142,250
Individual annuities runoff		**4,695**		5,307		**4,695**		5,307
Balance at end of period	**$**	**138,400**	$	147,557	**$**	**138,400**	$	147,557

145

Table of Contents

(in millions)		Nine Months Ended September 30, 2009		2008
General and separate account reserves and mutual funds				
General account reserve	**$**	**85,915**	$	91,472
Separate account reserve		**44,225**		48,518
Total general and separate account reserves		**130,140**		139,990
Group retirement mutual funds		**8,260**		7,567
Total reserves and mutual funds	**$**	**138,400**	$	147,557

*

Amounts for the first six months of 2009 were revised by $76 million to reflect a correction of a coding error that reduced surrenders and other withdrawals and increased death benefits.

Deposits in all three product lines have been negatively affected by lower AIG ratings and the lingering effects of negative AIG publicity. For individual variable annuities, the decrease is also attributable to a general decline in industry sales volumes. Individual fixed and variable annuity sales have decreased due to the temporary suspension of product sales at certain selling organizations due to the effect of the AIG events. Deposits for individual fixed annuities and group retirement products increased for the three-month period ended September 30, 2009, compared to the three-month period ended June 30, 2009 by 41 percent and 7 percent, respectively, primarily due to reinstatement of sales at certain financial institutions and a reduction in publicity regarding AIG events.

Surrender rates and other withdrawals increased for group retirement products and individual variable and fixed annuities in the nine-month period ended September 30, 2009 compared to the same period in 2008, primarily due to the AIG ratings downgrades (and related downgrades at the Domestic Retirements Services operating life insurance companies) and negative publicity about AIG. However, surrender rates and net flows have continued to improve in all three product lines from the fourth quarter of 2008. Surrenders and other withdrawals declined for the three-month period ended September 30, 2009, compared with the three-month period ended June 30, 2009 for individual fixed annuities and group retirement products by 48 percent and 18 percent, respectively. Surrender rates for group retirement products are expected to increase in the reminder of 2009 as certain large group surrenders are anticipated.

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

At September 30, *(in millions)*		**Group Retirement Products***		**Individual Fixed Annuities**		**Individual Variable Annuities**
2009						
No surrender charge	**$**	**46,942**	**$**	**10,729**	**$**	**10,717**
0% 2%		**1,619**		**3,001**		**3,944**
Greater than 2% 4%		**1,898**		**6,130**		**2,118**
Greater than 4%		**3,147**		**23,123**		**7,018**
Non-Surrenderable		**902**		**3,208**		**949**
Total Reserves	**$**	**54,508**	**$**	**46,191**	**$**	**24,746**

Surrender rates	**11.0%**	**16.3%**	**12.3%**
2008			
No surrender charge	$ 47,162	$ 11,362	$ 10,886
0% 2%	2,301	3,303	3,906
Greater than 2% 4%	2,492	7,272	3,207
Greater than 4%	2,666	26,399	8,944
Non-Surrenderable	910	3,287	586
Total Reserves	$ 55,531	$ 51,623	$ 27,529
Surrender rates	8.9%	13.3%	13.6%

* *Excludes mutual funds of $8.3 billion and $7.6 billion at September 30, 2009 and 2008, respectively.*

146

Table of Contents

Deferred Policy Acquisition Costs and Sales Inducement Assets

DAC for Life Insurance & Retirement Services products arises from the deferral of costs that vary with, and are directly related to, the acquisition of new or renewal business. Policy acquisition costs for life insurance products are generally deferred and amortized over the premium paying period. Policy acquisition costs that relate to universal life and investment-type products are generally deferred and amortized, with interest in relation to the incidence of estimated gross profits to be realized over the estimated lives of the contracts. Value of Business Acquired (VOBA) is determined at the time of acquisition and is reported on the consolidated balance sheet with DAC and amortized over the life of the business similar to DAC. AIG offers sales inducements to contract holders (bonus interest) on certain annuity and investment contracts. Sales inducements are recognized as an asset (SIA) with a corresponding increase to the liability for policyholder contract deposits on the consolidated balance sheet and are amortized over the life of the contract similar to DAC. The deferral of acquisition and sales inducement costs decreased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to declines in new business production.

AIG adopted a new other-than-temporary impairments accounting standard on April 1, 2009 resulting in a cumulative effect adjustment to the cost basis of affected securities and DAC and SIA charges related to other-than-temporary impairments previously taken. There was no material effect to DAC and SIA assets on the Consolidated Balance Sheet. However, because realized capital gains and losses are included in the estimated gross profits used to amortize DAC for investment-oriented products, DAC amortization is expected to be lower in future periods.

The following table summarizes the major components of the changes in DAC/VOBA and SIA:

Nine Months Ended September 30,	**2009**			**2008**		
(in millions)	**DAC/VOBA**	**SIA**	**Total**	**DAC/VOBA**	**SIA**	**Total**
Foreign Life Insurance & Retirement Services						
Balance at beginning of year	**$ 26,166**	**$ 317**	**$ 26,483**	$ 26,175	$ 681	$ 26,856
Acquisition costs deferred	**3,785**	**23**	**3,808**	4,250	67	4,317
Amortization (charged) or credited to operating income	**(2,956)**	**(17)**	**(2,973)**	(2,783)	(49)	(2,832)
Change in unrealized gains (losses) on securities[(a)]	**(237)**		**(237)**	2,216	7	2,223
Increase (decrease) due to foreign exchange	**975**	**12**	**987**	(70)	(11)	(81)
Other[(b)(c)]	**(211)**	**(4)**	**(215)**	(1,088)	(298)	(1,386)
Balance at end of period	**$ 27,522**	**$ 331**	**$ 27,853**	$ 28,700	$ 397	$ 29,097
Domestic Life Insurance						
Balance at beginning of year	**$ 7,236**	**$ 66**	**$ 7,302**	$ 6,432	$ 53	$ 6,485
Acquisition costs deferred	**396**	**11**	**407**	656	11	667
Amortization (charged) or credited to operating income	**(510)**	**(11)**	**(521)**	(400)	(5)	(405)
Change in unrealized gains (losses) on securities[(a)]	**(284)**	**(1)**	**(285)**	415		415
Increase (decrease) due to foreign exchange	**(14)**		**(14)**	(40)		(40)
Other[(b)]	**(760)**	**(6)**	**(766)**			
Balance at end of period	**$ 6,064**	**$ 59**	**$ 6,123**	$ 7,063	$ 59	$ 7,122
Domestic Retirement Services						
Balance at beginning of year	**$ 7,211**	**$ 1,415**	**$ 8,626**	$ 5,838	$ 991	$ 6,829
Acquisition costs deferred	**344**	**116**	**460**	654	163	817
Amortization (charged) or credited to operating income	**(721)**	**(186)**	**(907)**	(530)	(39)	(569)

Change in unrealized gains (losses) on securities[a]		**(547)**		**(127)**		**(674)**		817		146	963
Increase (decrease) due to foreign exchange											
Other[b]		**(1,078)**		**(262)**		**(1,340)**					
Balance at end of period	**$**	**5,209**	**$**	**956**	**$**	**6,165**	$	6,779	$	1,261	$ 8,040

147

Table of Contents

Nine Months Ended September 30,	2009			2008		
(in millions)	DAC/VOBA	SIA	Total	DAC/VOBA	SIA	Total
Total Life Insurance & Retirement Services						
Balance at beginning of year	**$ 40,613**	**$ 1,798**	**$ 42,411**	$ 38,445	$ 1,725	$ 40,170
Acquisition costs deferred	**4,525**	**150**	**4,675**	5,560	241	5,801
Amortization (charged) or credited to operating income	**(4,187)**	**(214)**	**(4,401)**	(3,713)	(93)	(3,806)
Change in unrealized gains (losses) on securities[(a)]	**(1,068)**	**(128)**	**(1,196)**	3,448	153	3,601
Increase due to foreign exchange	**961**	**12**	**973**	(110)	(11)	(121)
Other[(b)(c)]	**(2,049)**	**(272)**	**(2,321)**	(1,088)	(298)	(1,386)
Balance at end of period	**$ 38,795**	**$ 1,346**	**$ 40,141**	$ 42,542	$ 1,717	$ 44,259

(a) *In 2009, includes increases of $191 million, $286 million and $1.3 billion for Foreign Life Insurance & Retirement Services, Domestic Life Insurance and Domestic Retirement Services, respectively, related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard.*

(b) *In 2009, includes decreases of $197 million, $286 million and $1.3 billion for Foreign Life Insurance & Retirement Services, Domestic Life Insurance and Domestic Retirement Services, respectively, related to the cumulative effect of adopting a new other-than-temporary impairments accounting standard. For Domestic Life Insurance, 2009 also includes a decrease of $479 million related to the divestiture of the operations in Canada.*

(c) *In 2008, primarily represents the cumulative effect of adopting a new accounting standard addressing the fair value option for financial assets and financial liabilities.*

As AIG operates in various global markets, the estimated gross profits used to amortize DAC, VOBA and SIA are subject to differing market returns and interest rate environments in any single period. The combination of market returns and interest rates may lead to acceleration of amortization in some products and regions and simultaneous deceleration of amortization in other products and regions.

DAC, VOBA and SIA for insurance-oriented, investment-oriented and retirement services products are reviewed for recoverability, which involves estimating the future profitability of current business. This review involves significant management judgment. If actual future profitability is substantially lower than estimated, AIG's DAC, VOBA and SIA may be subject to an impairment charge and AIG's results of operations could be significantly affected in future periods.

Financial Services Operations

AIG's Financial Services subsidiaries engage in diversified activities including aircraft leasing, capital markets, and consumer finance and insurance premium finance. Together, the Aircraft Leasing, Capital Markets and Consumer Finance operations generate the majority of the revenues produced by the Financial Services operations.

Aircraft Leasing

AIG's Aircraft Leasing operations are the operations of ILFC, which generates its revenues primarily from leasing new and used commercial jet aircraft to foreign and domestic airlines. Revenues also result from the remarketing of commercial jet aircraft for ILFC's own account, and remarketing and fleet management services for airlines and other aircraft fleet owners.

Capital Markets

Capital Markets represents the operations of AIGFP, which engaged as principal in a wide variety of financial transactions, including standard and customized financial products involving commodities, credit, currencies, energy, equities and interest rates. AIGFP also invests in a diversified portfolio of securities and engaged in borrowing activities that involve issuing standard and structured notes and other securities and entering into GIAs. Given the extreme market conditions experienced in 2008, downgrades of AIG's credit ratings by the rating agencies and AIG's intent to refocus on its core businesses, in late 2008 AIGFP began to unwind its businesses and portfolios, including those associated with credit protection written through credit default swaps on super senior risk tranches of diversified pools of loans and debt securities.

Historically, AIG's Capital Markets operations derived a significant portion of their revenues from hedged financial positions entered into in connection with counterparty transactions. AIGFP has also participated as a dealer in a wide variety of financial derivatives transactions. Revenues and operating income of the Capital Markets operations and the percentage change in these amounts for any given period are significantly affected by changes in the fair value of AIGFP's assets and liabilities and by the number, size and profitability of transactions entered into during that period relative to those entered into during the comparative period.

Consumer Finance

AIG's Consumer Finance operations in North America are principally conducted through AGF. AGF derives most of its revenues from finance charges assessed on real estate loans, secured and unsecured non-real estate loans and retail sales finance receivables.

AIG's foreign consumer finance operations are principally conducted through AIGCFG. AIGCFG operates primarily in emerging and developing markets. At September 30, 2009, AIGCFG had operations in Argentina, China, Brazil, Hong Kong, Mexico, Poland, Russia, Taiwan, Thailand, India and Colombia. During the first nine months of 2009 and through October 30, 2009, AIG has completed the sale of certain AIGCFG operations in China, Thailand, the Philippines, Mexico and Hong Kong. AIG has also entered into contracts to sell certain AIGCFG operations in Argentina, China, Colombia, Poland, Russia, Taiwan and Thailand.

Financial Services Results

Financial Services results were as follows:

(in millions)	**Three Months Ended September 30, 2009**	**2008**	**Percentage Increase/ (Decrease)**	**Nine Months Ended September 30, 2009**	**2008**	**Percentage Increase/ (Decrease)**
Revenues:						
Aircraft Leasing	**$ 1,284**	$ 1,367	(6)%	**$ 3,949**	$ 3,830	3%
Capital Markets	**1,488**	(8,337)	-	**511**	(23,168)	-
Consumer Finance	**537**	1,029	(48)	**1,923**	2,988	(36)
Other, including intercompany adjustments	**(203)**	90	-	**151**	334	(55)
Total	**$ 3,106**	$ (5,851)	-%	**$ 6,534**	$ (16,016)	-%
Operating income (loss):						
Aircraft Leasing	**$ 307**	$ 366	(16)%	**$ 1,033**	$ 921	12%
Capital Markets	**1,349**	(8,073)	-	**100**	(23,284)	-
Consumer Finance	**(424)**	(474)	-	**(1,126)**	(559)	-
Other, including intercompany adjustments	**(332)**	(22)	-	**(318)**	42	-
Total	**$ 900**	$ (8,203)	-%	**$ (311)**	$ (22,880)	-%

Financial Services reported operating income in the three-month period ended September 30, 2009 and operating losses in the three-month period ended 2008 and the nine-month periods ended September 30, 2009 and 2008 due to the following:

AIGFP reported unrealized market valuation gains related to its super senior credit default swap portfolios of $959 million and $1.1 billion in the three- and nine-month periods ended September 30, 2009, respectively, and unrealized market valuation losses of $7.1 billion and $21.7 billion in the three- and nine-month periods ended September 30, 2008, respectively. The operating results in the three- and nine-month periods ended September 30, 2009 also included gains of $645 million and $2.4 billion, respectively, representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including a loss of $85 million and a

149

gain of $4 million, respectively, reflected in the unrealized market valuations on the super senior credit default swaps. Interest expense on intercompany borrowings and the effect on operating results related to the continued wind-down of AIGFP's portfolios in 2009 partially offset the unrealized market valuation gains related to AIGFP's credit default swap portfolios and the gains related to the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities.

AGF's operating loss decreased in the three-month period ended September 30, 2009 compared to the same period in 2008 primarily due to lower operating expenses, partially offset by a decline in finance charge revenues. AGF's operating loss increased in the nine-month period ended September 30, 2009 compared to the same period in 2008 primarily due to lower finance charges and other revenues reflecting the sales of real estate portfolios as part of AGF's liquidity management efforts and higher provision for finance receivable losses resulting from increases to the allowance for finance receivable losses in response to the higher levels of delinquencies on AGF's finance receivable portfolio and higher net charge-offs. This increase in operating loss was partially offset by lower operating expenses and interest expense. AGF's operating expenses declined in both the three- and nine-month periods ended September 30, 2009 compared to the same periods in 2008 primarily due to the write-down of AGF's goodwill of $341 million during the third quarter of 2008, the decision to cease its wholesale originations in 2008 and the closing of over 400 AGF branch offices in 2008 and 2009 combined.

For the three- and nine-month periods ended September 30, 2009, Consumer Finance results include net losses on the sale of various international consumer finance operations of $241 million and $446 million, respectively.

ILFC reported an increase in rental revenues of $86 million and an interest expense decrease of $62 million in the three-month period ended September 30, 2009 compared to the same period in 2008. The rental revenues increase was driven to a large extent by a larger aircraft fleet and the interest expense decrease resulted from lower composite borrowing rates. However, ILFC's operating income decreased due to an out of period charge of $80 million in the third quarter of 2009 related to a credit value adjustment, which had no effect on AIG's consolidated operating income. Operating income increased 12 percent or $112 million in the nine-month period ended September 30, 2009 compared to the same period in 2008 driven to a large extent by a larger aircraft fleet and lower composite borrowing rates.

For the three- and nine-month periods ended September 30, 2009 the other segment reflects a loss of $287 million on the sale of the U.S. life premium finance business of AIG Credit Corp. and A.I. Credit.

Quarterly Capital Markets Results

AIGFP's operating gain in the three-month period ended September 30, 2009 compared to an operating loss for the same period in 2008 was primarily related to a market valuation gain in 2009 compared to a loss in 2008 on its super senior credit default swap portfolio. AIGFP's results also reflect the effects of its wind-down activities.

AIGFP recognized an unrealized market valuation gain of $959 million in the three-month period ended September 30, 2009 compared to an unrealized market valuation loss of $7.1 billion in 2008, representing the change in fair value of its super senior credit default swap portfolio. The principal components of the valuation gains and losses recognized were as follows:

AIGFP recognized an unrealized market valuation gain of $332 million in the third quarter of 2009 with respect to credit default swaps (CDS) transactions written on multi-sector CDOs, compared to a $6.3 billion unrealized market valuation loss for the same period in 2008. The change from an unrealized market valuation loss to an unrealized market valuation gain on this portfolio was largely due to the substantial decline in outstanding net notional amount resulting from the termination of CDS contracts in the fourth quarter of 2008 in connection with the ML III transaction as well as improvement in market conditions in the third quarter of 2009.

AIGFP recognized an unrealized market valuation gain of $566 million in the third quarter of 2009 with respect to CDS transactions in the corporate arbitrage portfolio, compared to a $538 million market valuation loss for the same period in

2008. During the third quarter of 2009, the valuation of these contracts benefited from the narrowing of corporate credit spreads, while these spreads widened during the same period in 2008.

Table of Contents

See Critical Accounting Estimates Level 3 Assets and Liabilities Valuation of Level 3 Assets and Liabilities for a discussion of AIGFP's super senior credit default swap portfolio.

During the three-month period ended September 30, 2009, AIGFP recognized a gain of $370 million on credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits which are not included in the super senior credit default swap portfolio, compared to a net loss of $248 million in the same period of 2008.

The following table presents AIGFP's credit valuation adjustment gains (losses) (excluding intercompany transactions):

(in millions)

	Counterparty Credit Valuation Adjustment on Assets		AIG's Own Credit Valuation Adjustment on Liabilities
Three Months Ended September 30, 2009			
Bond trading securities	**$ 1,627**	Notes and bonds payable	**$ (281)**
Loans and other assets	**19**	Hybrid financial instrument liabilities	**(252)**
Derivative assets	**(6)**	GIAs	**(105)**
		Other liabilities	**(45)**
		Derivative liabilities*	**(312)**
Increase in assets	**$ 1,640**	Increase in liabilities	**$ (995)**
Net pre-tax increase to other income	**$ 645**		
Three Months Ended September 30, 2008			
Bond trading securities	$ (2,032)	Notes and bonds payable	$ 1,003
Loans and other assets	(7)	Hybrid financial instrument liabilities	729
Derivative assets	(240)	GIAs	(1,272)
		Other liabilities	81
		Derivative liabilities*	751
Decrease in assets	$ (2,279)	Decrease in liabilities	$ 1,292
Net pre-tax decrease to other income	$ (987)		

* *Includes super senior credit default swap portfolio.*

AIGFP's operating gain in the three-month period ended September 30, 2009 includes a net gain of $645 million representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including $85 million of losses reflected in the unrealized market valuation gain on super senior credit default swaps. The gain in the third quarter of 2009 was primarily the result of the narrowing in credit spreads since June 30, 2009. This gain was partially offset by losses from the narrowing of AIG's credit spreads.

The operating loss for the three-month period ended September 30, 2008 included a net credit valuation adjustment loss of $987 million, and reflected $98 million of gains included in unrealized market valuation loss on super senior credit default swaps. Credit valuation adjustment losses of $2.3 billion on AIGFP assets were primarily due to the widening of credit spreads on CDOs and ABS products, which represented a significant portion of AIGFP's investment portfolio. Credit spreads on the ABS and CDO investments widened significantly more than the widening in AIG's credit spreads. Furthermore, while AIG's credit spreads widened during the third quarter of 2008, the credit valuation adjustment on its liabilities decreased due to a decline in AIGFP's outstanding debt obligations and the shortened maturity of its liabilities.

Included in AIGFP's financial results for the third quarter of 2009 is $569 million of interest charges on intercompany borrowings with AIG that is eliminated in consolidation.

Historically, the most significant component of Capital Markets operating expenses was compensation. Due to the significant losses recognized by AIGFP during 2008, the entire amount of $563 million accrued under AIGFP's

151

Table of Contents

various deferred compensation plans and special incentive plan was reversed in the third quarter of 2008. For the three-month period ended September 30, 2009, compensation expense was approximately $25 million, or only 17 percent of operating expenses. In addition, AIGFP recognized $34 million in expenses related to pre-existing retention plans that were reported as part of restructuring expenses.

Year-to-Date Capital Markets Results

AIGFP's operating gain in the nine-month period ended September 30, 2009 compared to an operating loss for the same period in 2008 was primarily related to a market valuation gain in 2009 compared to a loss in 2008 on its super senior credit default swap portfolio. AIGFP's results also reflect the effects of its wind-down activities.

AIGFP recognized an unrealized market valuation gain of $1.1 billion in the nine-month period ended September 30, 2009 compared to an unrealized market valuation loss of $21.7 billion in 2008, representing the change in fair value of its super senior credit default swap portfolio. The principal components of the valuation gains and losses recognized were as follows:

- AIGFP recognized an unrealized market valuation loss of $761 million in the first nine months of 2009 with respect to CDS transactions written on multi-sector CDOs, compared to $19.9 billion for the same period in 2008. The decrease in the unrealized market valuation loss on this portfolio was largely due to the substantial decline in outstanding net notional amount resulting from the termination of CDS contracts in the fourth quarter of 2008 in connection with the ML III transaction.

- AIGFP recognized an unrealized market valuation gain of $1.7 billion in the first nine months of 2009 with respect to CDS transactions in the corporate arbitrage portfolio, compared to an unrealized market valuation loss of $1.3 billion for the same period in 2008. During the first nine months of 2009, the valuation of these contracts benefited from the narrowing of corporate credit spreads, while these spreads widened during the same period in 2008.

See Critical Accounting Estimates Level 3 Assets and Liabilities Valuation of Level 3 Assets and Liabilities for a discussion of AIGFP's super senior credit default swap portfolio.

During the nine-month period ended September 30, 2009, AIGFP recognized a gain of $251 million on credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits which are not included in the super senior credit default swap portfolio, compared to a net loss of $331 million in the same period of 2008.

During the nine-month period ended September 30, 2009, AIGFP incurred an additional charge of $198 million related to a transaction entered into in 2002 whereby AIGFP guaranteed obligations under leases of office space from a counterparty.

Table of Contents

The following table presents AIGFP's credit valuation adjustment gains (losses) (excluding intercompany transactions):

(in millions)

	Counterparty Credit Valuation Adjustment on Assets		AIG's Own Credit Valuation Adjustment on Liabilities
Nine Months Ended September 30, 2009			
Bond trading securities	**$ 1,365**	Notes and bonds payable	**$ (34)**
Loans and other assets	**(43)**	Hybrid financial instrument liabilities	**59**
Derivative assets	**796**	GIAs	**214**
		Other liabilities	**12**
		Derivative liabilities*	**26**
Increase in assets	**$ 2,118**	Decrease in liabilities	**$ 277**
Net pre-tax increase to other income	**$ 2,395**		
Nine Months Ended September 30, 2008			
Bond trading securities	$ (4,683)	Notes and bonds payable	$ 1,185
Loans and other assets	(35)	Hybrid financial instrument liabilities	1,344
Derivative assets	(543)	GIAs	(200)
		Other liabilities	109
		Derivative liabilities*	1,390
Decrease in assets	$ (5,261)	Decrease in liabilities	$ 3,828
Net pre-tax decrease to other income	$ (1,433)		

* *Includes super senior credit default swap portfolio.*

AIGFP's operating gain in the nine-month period ended September 30, 2009 includes a net gain of $2.4 billion representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including $4 million of gains reflected in the unrealized market valuation gain on super senior credit default swaps. The gain in the nine-month period ended September 30, 2009 was primarily the result of tightening of spreads on asset-backed securities and CDOs, which represent a significant segment of AIGFP's investment portfolio.

For the nine-month period ended September 30, 2008 AIGFP's operating loss included a credit valuation adjustment loss of $1.4 billion representing the effect of changes in credit spreads on the valuation of AIGFP's assets and liabilities, including $207 million of credit valuation adjustment gains reflected in the unrealized market valuation loss on super senior credit default swaps. Included in the nine-month period ended September 30, 2008 net operating loss is the transition amount of $291 million related to the adoption of new accounting standards for measuring fair value and electing to measure certain financial assets and liabilities at fair value, as well as a credit valuation adjustment gain of $193 million for derivatives AIGFP entered into with other AIG entities, which is eliminated in consolidation.

Included in AIGFP's financial results for the nine-month period ended September 30, 2009 is $2.2 billion of interest charges on intercompany borrowings with AIG that are eliminated in consolidation.

Historically, the most significant component of Capital Markets operating expenses was compensation. For the nine-month period ended September 30, 2009, compensation expense was approximately $75 million, or only 18 percent of operating expenses. In addition, AIGFP recognized $121 million in expenses related to pre-existing retention plans that were reported as part of restructuring expenses. Year to date results for 2008 also reflect the reversal of amounts accrued under AIGFP's various deferred compensation plans in the third quarter of 2008 as discussed above.

Table of Contents

Asset Management Operations

AIG's Asset Management operations comprise a wide variety of investment-related services and investment products. These services and products are offered to individuals, pension funds and institutions (including AIG subsidiaries) globally through AIG's Spread-Based Investment business, Institutional Asset Management, and Brokerage Services and Mutual Funds businesses. Also included in Asset Management operations are the results of certain SunAmerica sponsored partnership investments.

The revenues and operating income (loss) for this segment are affected by the general conditions in the equity and credit markets. In addition, net realized gains and carried interest are contingent upon investment maturity levels and market conditions. In the Institutional Asset Management business, carried interest, computed in accordance with each fund's governing agreement, is based on the investment's performance over the life of each fund. Unrealized carried interest is recognized based on each fund's performance as of the balance sheet date. Future fund performance may negatively affect previously recognized carried interest.

On September 5, 2009, AIG entered into an agreement to sell its investment advisory and third party Institutional Asset Management businesses. This sale will exclude those asset management businesses providing traditional fixed income and shorter duration asset and liability management for AIG's insurance company subsidiaries and AIG's Global Real Estate investment management business as well as proprietary real estate and private equity investments. AIG will retain its real estate asset management business. AIG expects to continue short-term relationships with the divested businesses for other investment management services used by its insurance company subsidiaries.

See the 2008 Form 10-K for a further description of the Asset Management businesses.

Asset Management Results

Asset Management results were as follows:

	Three Months Ended September 30,		Percentage Increase/	Nine Months Ended September 30,		Percentage Increase/
(in millions)	2009	2008	(Decrease)	2009	2008	(Decrease)
Revenues:						
Spread-Based Investment business	$ **(467)**	$ (903)	-%	$ **4**	$ (1,710)	-%
Institutional Asset Management	**(616)**	782	-	**(506)**	1,993	-
Brokerage Services and Mutual Funds	**47**	67	(30)	**142**	215	(34)
Other Asset Management	**78**	64	22	**153**	160	(4)
Total	$ **(958)**	$ 10	-%	$ **(207)**	$ 658	-%
Operating income (loss):						
Spread-Based Investment business	$ **(671)**	$ (1,229)	-%	$ **(644)**	$ (2,900)	-%
Institutional Asset Management	**(1,573)**	10	-	**(2,520)**	(10)	-
Brokerage Services and Mutual Funds	**(69)**	10	-	**(79)**	46	-
Other Asset Management	**78**	65	20	**153**	155	(1)
Total	$ **(2,235)**	$ (1,144)	-%	$ **(3,090)**	$ (2,709)	-%

Asset Management recognized significantly greater operating losses in the three and nine months ended September 30, 2009 compared to the same periods in 2008, due to goodwill impairments related to the Institutional Asset Management and Brokerage Services and Mutual Funds businesses and impairments on proprietary real estate and private equity investments as well as net fair value losses on derivatives not qualifying for hedge accounting.

Substantially all of the operating unit's goodwill was impaired in the third quarter. The third quarter assessment of the segment was negatively affected by a significant decline in certain consolidated warehoused investments as well as the consideration of recent transaction activity. A total of $697 million in goodwill impairments was recorded in the three months ended September 30, 2009, with $287 million offset in non-controlling interest, which is not part of operating income (loss).

Restructuring-related expenses during the three and nine months ended September 30, 2009 for the Asset Management segment were $9 million and $34 million, respectively.

Quarterly Spread-Based Investment Business Results

The Spread-Based Investment business reported a lower operating loss in the three-month period ended September 30, 2009 compared to the same period in 2008 due to significantly lower other-than-temporary impairments on fixed maturity investments due primarily to the improved credit environment and the adoption of the new accounting standard on other-than-temporary impairments offset by increased net fair value losses on foreign exchange and interest rate derivatives not qualifying for hedge accounting treatment.

AIG enters into derivative arrangements to hedge the effect of changes in currency and interest rates associated with the fixed and floating rate and foreign currency denominated obligations issued under these programs. Some of these hedging relationships do not qualify for hedge accounting treatment and therefore create volatility in operating results despite being effective economic hedges.

Year-to-Date Spread-Based Investment Business Results

The Spread-Based Investment business reported a lower operating loss in the nine-month period ended September 30, 2009 compared to the same period in 2008 due to significantly lower other-than-temporary impairments on fixed maturity investments due primarily to the improved credit environment and the adoption of the new accounting standard on other-than-temporary impairments offset by increased net fair value losses on foreign exchange and interest rate derivatives not qualifying for hedge accounting treatment.

The GIC program is in runoff with no new GICs issued subsequent to 2005. The anticipated runoff of the domestic GIC portfolio was as follows:

At September 30, 2009 *(in billions)*	**Remainder of 2009**	**2010 - 2012**	**2013 - 2014**	**Thereafter**	**Total**
Domestic GICs	$ 1.4	$ 2.7	$ 2.4	$ 3.6	$ 10.1

Contractual maturities of debt issued under the MIP was as follows:

At September 30, 2009 *(in billions)*	**Remainder of 2009**	**2010 - 2012**	**2013 - 2014**	**Thereafter**	**Total**
MIP liabilities	$ -	$ 7.7	$ 1.3	$ 4.6	$ 13.6

The GIC and MIP both invest in various fixed income asset classes which include corporate debt, both public and private, and structured fixed income products consisting of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and CDOs. The majority of these investments are currently rated investment grade. In addition, the GIC and the MIP invest in bank loans, commercial mortgage loans and single name credit default swaps. The GIC invests in limited partnership (or equivalent) interests in private equity and hedge funds, while the MIP does not.

Quarterly Institutional Asset Management Results

Institutional Asset Management recognized an operating loss in the three-month period ended September 30, 2009 compared to operating income in the same period in 2008, primarily resulting from goodwill impairments and impairments on proprietary real estate and private equity investments. Also contributing to the decline were lower base management fees. Goodwill impairments totalling $625 million were recorded in the three months ended September 30, 2009, with $287 million offset in non-controlling interest, which is not part of operating income (loss).

Real estate impairments of $506 million during the third quarter of 2009 were incurred in the direct investment portfolio as well as through real estate joint ventures as the global credit crisis has continued to put pressure on real

155

estate values, occupancy rates and leasing activity. Approximately $67 million was included in non-controlling interest, which is not part of operating income (loss). This downward pressure has caused impairments across the portfolio. In addition, the availability of refinancing and required capital has caused management to reduce the estimated time period before sale for certain investments resulting in impairments.

Impairments of private equity investments originally acquired for warehouse purposes were driven by asset specific valuation considerations which were deemed to be other-than-temporary.

Base management fees have declined from prior year periods due to lower average assets under management. The lower average asset base is a function of reduced asset values and client loss, which primarily occurred in the second half of 2008 and has since abated.

Year-to-Date Institutional Asset Management Results

Institutional Asset Management recognized an increased operating loss in the nine-month period ended September 30, 2009 compared to the same period in 2008, primarily from the impairments discussed above. In addition, during the nine months ended September 30, 2009, unrealized carried interest revenues have declined as compared to the prior year period due to a decline in portfolio asset valuations as well as lower management fees on lower base assets under management. Unrealized carried interest revenues are impacted by asset valuation changes within the managed portfolio and typically move in tandem with the level of assets under management and related base management fees. The operating loss was partially offset by a $111 million gain on the sale of AIG Private Bank.

Brokerage Services and Mutual Funds

Revenues and operating income related to Brokerage Services and Mutual Fund activities decreased in the three- and nine-month periods ended September 30, 2009 compared to the same periods in 2008 due to a goodwill impairments of approximately $72 million and $81 million in the three-and nine-month periods ended September 30, 2009, respectively.

Other Asset Management Results

Revenues and operating income related to Other Asset Management activities increased in the three-month period ended September 30, 2009 from the same period in 2008, due to higher partnership income as the third quarter of 2009 showed signs of improvement. Revenues and operating income related to Other Asset Management activities decreased marginally in the nine-month period ended September 30, 2009 from the same period in 2008, due to lower partnership income driven by weaker market conditions in 2009.

Other Operations

AIG's Other operations include interest expense, restructuring costs, expenses of corporate staff not attributable to specific business segments, expenses related to efforts to improve internal controls, corporate initiatives and certain compensation plan expenses.

Additionally, beginning in the second quarter of 2009, in order to better align financial reporting with the manner in which AIG's chief operating decision makers manage their businesses, the results for Mortgage Guaranty, Transatlantic, Personal Lines (excluding Private Client Group) and HSB are now included in AIG's Other operations. These amounts were previously reported as part of General Insurance operations. Prior period amounts have been revised to conform to the current presentation.

Other Results

The operating income of AIG's Other category was as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Percentage Increase/ (Decrease)	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Percentage Increase/ (Decrease)
Parent company:						
Income from equity method investments, net of dividends or distributions	$ (2)	$ (13)	-%	$ (34)	$ 3	-%
Interest income	614	167	268	2,338	257	-
Interest expense on Federal Reserve Bank of New York credit facility	(1,252)	(802)	-	(4,156)	(802)	-
Other interest expense	(556)	(571)	-	(1,649)	(1,391)	-
Unallocated corporate expenses	(128)	(321)	-	(547)	(786)	-
Restructuring expenses	(95)	-	-	(343)	-	-
Change in fair value of ML III*	-	-	-	(1,401)	-	-
Net realized capital gains (losses)	(597)	139	-	11	(96)	-
Other miscellaneous, net	139	(15)	-	393	(84)	-
Total Parent company	$ (1,877)	$ (1,416)	-%	$ (5,388)	$ (2,899)	-%
Noncore businesses:						
Mortgage Guaranty	$ (465)	$ (1,118)	-%	$ (1,433)	$ (1,990)	-%
Change in fair value of ML III*	1,162	-	-	1,624	-	-
Other	(158)	(178)	-	62	131	(53)
Total noncore businesses	$ 539	$ (1,296)	-%	$ 253	$ (1,859)	-%
Total Other operations	$ (1,338)	$ (2,712)	-%	$ (5,135)	$ (4,758)	-%

* *Parent company contributed its equity interest in ML III to an AIG subsidiary, reported above in Noncore businesses, during the second quarter of 2009.*

Parent Company

Parent company operating loss in the three months ended September 30, 2009 increased compared to the same period in 2008 primarily due to interest expense on the FRBNY Facility, net realized capital losses primarily arising from asset dispositions, and restructuring expenses. These were partially offset by interest income on intercompany loans, which are eliminated in consolidation, and lower unallocated corporate expenses related to share-based compensation and corporate operating expenses.

Parent company operating loss in the nine months ended September 30, 2009 increased compared to the same period in 2008 primarily due to interest expense on the FRBNY Facility, losses associated with the change in fair value of AIG's equity interest in ML III, and restructuring expenses. These were partially offset by interest income on intercompany loans.

Noncore businesses

Mortgage Guaranty

The main business of the subsidiaries of UGC is the issuance of residential mortgage guaranty insurance, both domestically and internationally, that covers the first loss for credit defaults on high loan-to-value conventional first-lien mortgages for the purchase or refinance of one- to four-family residences.

During 2008, UGC tightened underwriting guidelines and increased premium rates for its first-lien business, ceased insuring second-lien business as of September 30, 2008 and during the fourth quarter of 2008 ceased insuring new private student loan business and suspended insuring new business throughout its European operations. All of these actions were in response to the worsening conditions in the global housing markets and resulted in a significant decline in new business written during the second half of 2008 and the first nine months of 2009.

Mortgage Guaranty, in common with other participants in the mortgage insurance industry, has made claims against various counterparties in relation to alleged underwriting failures, and received similar claims from counterparties.

UGC's domestic mortgage risk in force totaled $29.3 billion as of September 30, 2009 and the 60+ day delinquency ratio was 11.8 percent (based on number of policies, consistent with mortgage industry practice) compared to domestic mortgage risk in force of $31.0 billion and a delinquency ratio of 6.0 percent at September 30, 2008. Approximately 85 percent of the domestic mortgage risk is secured by first-lien, owner-occupied properties.

The second-lien risk in force at September 30, 2009 totaled $2.7 billion compared to $3.2 billion of risk in force at September 30, 2008. Risk in force represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions. UGC's loss projections include expected losses of $232 million related to reinstatement layers with approximately $1.2 billion of risk in force exposure for pools that have already or are expected to reach the stop loss.

Mortgage Guaranty operating loss decreased for the three-month period ended September 30, 2009 compared to the same period in 2008 due to lower loss and loss adjustment expenses in domestic first- and second-liens business. The domestic first-lien operating loss for the three-month period ended September 30, 2009 decreased $101 million from the same period in 2008 to $237 million while the second-lien three month September 30, 2009 operating loss of $105 million decreased $650 million compared to the same period in 2008. The decline in first-lien operating loss reflects the recognition of a $38 million benefit due to stop loss limits on certain first-lien pool business. The decline in the second-lien operating loss is due primarily to the recognition of a $453 million premium deficiency reserve during the three-month period ended September 30, 2008. These results were partially offset by the increased operating loss in international for the three-month period ended September 30, 2009 of $105 million which is $84 million higher than the same period in 2008.

Mortgage Guaranty operating loss for the nine-month period ended September 30, 2009 decreased compared to the same period in 2008. The decreased operating loss reflects a $675 million reduction in operating expenses reflecting the recognition of a premium deficiency reserve of $453 million in 2008 and the release of $222 million premium deficiency reserve in the first quarter of 2009, partially offset by increased loss and loss adjustment expenses in 2009. Domestic second-lien business reported an operating loss of $308 million for the nine-month period ended September 30, 2009 which was $908 million lower than the same period in 2008 reflecting the release of the premium deficiency reserve in the first quarter of 2009. Domestic first-lien and international business operating losses of $880 million and $199 million, respectively, for the nine-month period ended September 30, 2009 were $126 million and $166 million higher, respectively, during the same period in 2008.

Change in fair value of ML III

Gains in the three-and nine-month periods ended September 30, 2009 resulted from improvements in projected cash flows and narrowing of credit spreads.

Other noncore businesses consist of the following:

Transatlantic

Transatlantic offers reinsurance capacity on both a treaty and facultative basis both in the U.S. and abroad. Transatlantic structures programs for a full range of property and casualty products with an emphasis on specialty risk.

On June 10, 2009, AIG closed the previously announced public offering of 29.9 million shares of Transatlantic common stock owned directly and indirectly by AIG for aggregate gross proceeds of $1.1 billion. At the close of the public offering, AIG indirectly retained 13.9 percent of the Transatlantic common stock issued and outstanding. As a result, AIG deconsolidated Transatlantic, which resulted in a $1.4 billion reduction in Noncontrolling interest, a component of Total equity. Operating income for the nine-month period ended September 30, 2009 includes a loss of $497 million related to the deconsolidation of Transatlantic.

21st Century

On July 1, 2009, AIG closed the sale of 21st Century Insurance Group and the Agency Auto Division (excluding AIG Private Client Group). Operating income for the nine-month period ended September 30, 2009 includes a loss of $407 million related to the sale of 21st Century.

HSB

On March 31, 2009, AIG closed the sale of HSB, the parent company of the Hartford Steam Boiler Inspection and Insurance Company, to Munich Re Group. Operating income for the nine-month period ended September 30, 2009 includes a gain of $163 million related to the sale of HSB.

Critical Accounting Estimates

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

- AIG's ability to continue as a going concern,
- liability for general insurance unpaid claims and claims adjustment expenses,
- future policy benefits for life and accident and health contracts,
- recoverability of DAC,
- estimated gross profits for investment-oriented products,
- the allowance for finance receivable losses,
- flight equipment recoverability,
- other-than-temporary impairments,
- goodwill impairment,
- liability for legal contingencies,
- estimates with respect to income taxes, and

fair value measurements of certain financial assets and liabilities, including credit default swaps and AIG's investments in ML II and ML III (Maiden Lane Interests).

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 financial condition and results of operations would be directly affected.

The major categories for which assumptions are developed and used to establish each critical accounting estimate are highlighted below.

AIG's Ability to Continue as a Going Concern

When assessing AIG's ability to continue as a going concern, management must make judgments and estimates about the following:

- the marketability of assets to be disposed of and the timing and amount of related cash proceeds to be used to repay indebtedness;
- the planned sales of significant subsidiaries;
- plans to raise new funds or refinance debt;
- projections of future profitability and the timing and amount of cash flows from operating activities;
- the funding needs of regulated subsidiaries;

159

AIG's ability to comply with debt covenants;

plans to reduce expenditures;

the effects of ratings agency actions on collateral requirements and other contractual conditions; and

the future regulatory, business, credit, and competitive environments in which AIG operates around the world.

These factors, individually and collectively, will have a significant effect on AIG's ability to generate sufficient cash to repay indebtedness as it becomes due and profitably operate its businesses as it executes its restructuring initiatives.

Liability for Unpaid Claims and Claims Adjustment Expenses (General Insurance):

Loss trend factors: used to establish expected loss ratios for subsequent accident years based on premium rate adequacy and the projected loss ratio with respect to prior accident years.

Expected loss ratios for the latest accident year: in this case, accident year 2009 for the year-end 2009 loss reserve analysis. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are utilized for at least the three most recent accident years.

Loss development factors: used to project the reported losses for each accident year to an ultimate amount.

Reinsurance recoverable on unpaid losses: the expected recoveries from reinsurers on losses that have not yet been reported and/or settled.

For discussion of sensitivity analysis on the reserve for unpaid claims and claims adjustment expenses, see Results of Operations Segment Results General Insurance Operations Liability for Unpaid Claims and Claims Adjustment Expense in the 2008 Form 10-K.

Future Policy Benefits for Life and Accident and Health Contracts (Life Insurance & Retirement Services):

Interest rates: which vary by geographical region, year of issuance and products.

Mortality, morbidity and surrender rates: based upon actual experience by geographical region modified to allow for variation in policy form, risk classification and distribution channel.

Periodically, the net benefit reserves (policy benefit reserves less DAC) established for Life Insurance & Retirement Services companies are tested to ensure that, including consideration of future expected premium payments, they are adequate to provide for future policyholder benefit obligations. The assumptions used to perform the tests are current best-estimate assumptions as to policyholder mortality, morbidity, terminations, company maintenance expenses and invested asset returns. For long duration traditional business, a "lock-in" principle applies, whereby the assumptions used to calculate the benefit reserves and DAC are set when a policy is issued and do not change with changes in actual experience. These assumptions include margins for adverse deviation in the event that actual experience might deviate from these assumptions. For business in force outside of North America, 52 percent of total policyholder benefit liabilities at September 30, 2009 resulted from traditional business where the lock-in principle applies. In most foreign locations, various guarantees are embedded in policies in force that may remain applicable for many decades into the future.

As experience changes over time, the best-estimate assumptions are updated to reflect observed changes. Because of the long-term nature of many of AIG's liabilities subject to the lock-in principle, small changes in certain of the assumptions may cause large changes in the degree of reserve adequacy. In particular, changes in estimates of future invested asset return assumptions have a large effect on the degree of reserve adequacy.

Deferred Policy Acquisition Costs (Life Insurance & Retirement Services):

Recoverability: based on current and future expected profitability, which is affected by interest rates, foreign exchange rates, mortality/morbidity experience, expenses, investment returns and policy persistency.

Deferred Policy Acquisition Costs (General Insurance):

Recoverability: based upon the current terms and profitability of the underlying insurance contracts.

Table of Contents

Estimated Gross Profits for Investment-Oriented Products (Life Insurance & Retirement Services):

Estimated gross profits: to be realized over the estimated duration of the contracts (investment-oriented products), which affect the carrying value of DAC, unearned revenue liability, SIAs and associated amortization patterns. Estimated gross profits include investment income and gains and losses on investments less required interest, actual mortality and other expenses.

Allowance for Finance Receivable Losses (Financial Services):

Historical defaults and delinquency experience: utilizing factors, such as delinquency ratio, allowance ratio, charge-off ratio and charge-off coverage.

Portfolio characteristics: portfolio composition and consideration of the recent changes to underwriting criteria and portfolio seasoning.

External factors: consideration of current economic conditions, including levels of unemployment and personal bankruptcies.

Migration analysis: empirical technique measuring historical movement of similar finance receivables through various levels of repayment, delinquency, and loss categories to existing finance receivable pools.

Flight Equipment Recoverability (Financial Services):

Expected undiscounted future net cash flows: based upon current lease rates, projected future lease rates and lease periods and estimated terminal values of each aircraft based on expectations of market participants.

Other-Than-Temporary Impairments:

At each balance sheet date, AIG evaluates its available for sale securities holdings with unrealized losses. Prior to April 1, 2009, these reviews were conducted pursuant to accounting standards that were amended on April 1, 2009. See AIG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 for a discussion of AIG's process for evaluating other-than-temporary impairments under these prior accounting standards.

In April 2009, the Financial Accounting Standards Board issued a new accounting standard addressing recognition and presentation of other-than-temporary impairments, which amended the other-than-temporary impairment model for fixed maturity securities and requires additional disclosures. The impairment model for equity securities was not affected. See Note 1 to the Consolidated Financial Statements for additional discussion on the new other-than-temporary impairments accounting standard.

In connection with AIG's adoption of the new other-than-temporary impairments accounting standard on April 1, 2009, AIG changed its process for determining other-than-temporary impairments with respect to available for sale fixed maturity securities. If AIG intends to sell a fixed maturity security or it is more likely than not that AIG will be required to sell a fixed maturity security before recovery of its amortized cost basis and the fair value of the security is below amortized cost, an other-than-temporary impairment has occurred and the amortized cost is written down to current fair value, with a corresponding charge to earnings.

For all other fixed maturity securities for which a credit impairment has occurred, the amortized cost is written down to the estimated recovery value with a corresponding charge to earnings. Additional fair value decline below recovery value, if any, is charged to unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken (a component of accumulated other comprehensive income (loss)) because this is considered a non-credit impairment.

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

See the discussion in Note 5 to the Consolidated Financial Statements for additional information on the methodology and significant inputs, by security type, which AIG uses to determine the amount of a credit loss.

Table of Contents

AIG continues to evaluate its available for sale equity securities, equity method and cost method investments for impairment such that a security is considered a candidate for other-than-temporary impairment if it meets any of the following criteria:

- Trading at a significant (25 percent or more) discount to cost for an extended period of time (nine consecutive months or longer);

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

- AIG may not realize a full recovery on its investment, regardless of the occurrence of one of the foregoing events.

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

For further discussion, see Note 5 Investments Other-Than-Temporary Impairments.

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

Goodwill Impairment:

Goodwill is the excess of the cost of an acquired business over the fair value of the identifiable net assets of the acquired business. Goodwill is tested for impairment annually or more frequently if circumstances indicate impairment may have occurred. AIG performed goodwill impairment testing at September 30, 2009.

The impairment assessment involves a two-step process in which an initial assessment for potential impairment is performed and, if potential impairment is present, the amount of impairment is measured (if any) and recorded. Impairment is tested at the reporting unit level.

Management initially assesses the potential for impairment by estimating the fair value of each of AIG's reporting units and comparing the estimated fair values with the carrying amounts of those reporting units, including allocated goodwill. The estimate of a reporting unit's fair value may be based on one or a combination of approaches including market-based earning multiples of the unit's peer companies, discounted expected future cash flows, external appraisals or, in the case of reporting units being considered for sale, third-party indications of fair value, if available. Management considers one or more of these estimates when determining the fair value of a reporting unit to be used in the impairment test. As part of the impairment test, management compares the sum of the estimated fair values of all AIG's reporting units with AIG's fully diluted common stock market capitalization as a basis for concluding on the reasonableness of the estimated reporting unit fair values.

If the estimated fair value of a reporting unit exceeds its carrying value, goodwill is not impaired. If the carrying value of a reporting unit exceeds its estimated fair value, goodwill associated with that reporting unit potentially is impaired. The amount of impairment, if any, is measured as the excess of the carrying value of goodwill over the estimated fair value of the goodwill. The estimated fair value of the goodwill is measured as the excess of the fair value of the reporting unit over the amounts that would be assigned to the reporting unit's assets and liabilities in a hypothetical business combination. An impairment charge is recognized in earnings to the extent of the excess.

Management observed a narrowing of the fair values over the carrying values of the Life Insurance & Retirement Services Japan and Other and the Life Insurance & Retirement Services Asia reporting units during the first nine months of 2009. AIG will continue to monitor overall competitive, business and economic conditions, and other

events or circumstances that might result in an impairment of goodwill in the future. See Note 4 to the Consolidated Financial Statements for discussion on goodwill impairments.

Liability for Legal Contingencies

AIG estimates and records a liability for potential losses that may arise from litigation and regulatory proceedings related to AIG's activities as a global diversified financial services institution, to the extent such losses are probable and can be estimated. Determining a reasonable estimate of the amount of such losses requires significant management judgment. In many such proceedings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, AIG often cannot predict the outcome or estimate the eventual loss or range of loss related to such matters.

Valuation Allowance on Deferred Tax Assets:

At September 30, 2009 and December 31, 2008, AIG recorded net deferred tax asset after valuation allowances of $6.8 billion and $11 billion, respectively. A valuation allowance is established if necessary to reduce the deferred tax asset to an amount that is more likely than not to be realized. Realization of AIG's net deferred tax asset depends on AIG's ability to consummate the proposed AIA and ALICO transactions and to generate sufficient future taxable income of the appropriate character within carryforward periods of the jurisdictions in which the net operating and capital losses, tax credits and deductible temporary differences were incurred. Estimates of future taxable income could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG's consolidated financial condition or its results of operations. Because the realization of the deferred tax asset relies on the completion of the proposed transactions and a projection of future taxable income, AIG views this as a critical accounting estimate.

AIG is also relying to a lesser extent upon producing taxable operating profits from the businesses to be retained, principally Commercial Insurance and Foreign General Insurance. AIG has evaluated its forecasts of future operating income and determined that there will be sufficient operating income, inclusive of gains on the divestiture of businesses to realize the recorded net deferred tax asset.

When making its assessment about the realization of its deferred tax assets at September 30, 2009, AIG considered all available evidence, including (i) the nature, frequency, and severity of current and cumulative financial reporting losses, (ii) actions completed through October 30, 2009 and additional actions expected to be completed during the remainder of 2009, (iii) the carryforward periods for the net operating and capital loss and foreign tax credit carryforwards, (iv) the sources and timing of future taxable income, giving greater weight to discrete sources and to earlier future years in the forecast period, and (v) tax planning strategies that would be implemented, if necessary, to accelerate taxable amounts.

In assessing future GAAP taxable income, AIG considered its strong earnings history exclusive of the recent losses on the AIGFP super senior credit default swap portfolio and from the securities lending program. AIG also considered the completed transactions with the FRBNY and the Department of the Treasury, including (i) the execution of the ALICO and AIA purchase agreements, (ii) reduction of the interest rate payable on outstanding borrowing and undrawn amounts under the FRBNY Facility; (iii) the transfer of RMBS related to AIG's U.S. securities lending program to ML II; (iv) the termination of substantially all multi-sector credit default swap transactions and sale of underlying CDO securities to ML III; (v) the issuance of the AIG Series E Preferred Stock in exchange for the AIG Series D Preferred Stock; and (vi) the issuance of the AIG Series F Preferred Stock and the establishment of the Department of the Treasury Commitment.

AIG's profitability in any given period can be materially affected by conditions in global financial markets, economic conditions, catastrophes and other events around the world and, currently, AIG-specific events. Further, the results of operations in the first nine months of 2009 may not be indicative of the results expected for the full year because certain transactions proposed to be entered into with the Department of the Treasury and the FRBNY are not expected to be in place. However, AIG believes its forecasts are achievable.

Table of Contents

There are many important factors that could significantly affect the attainment of AIG's forecasted results. For a discussion of some of these factors, see Part II, Item 1A. Risk Factors in this Quarterly Report on Form 10-Q, Part II, Item 1A. Risk Factors in AIG's Quarterly Reports on Form 10-Q for the quarters ended June 30, 2009 and March 31, 2009 and in Part I, Item 1A. Risk Factors in the 2008 Form 10-K.

U.S. Income Taxes on Earnings of Certain Foreign Subsidiaries:

Due to the complexity of the U.S. federal income tax laws involved in determining the amount of income taxes incurred on potential dispositions, as well as AIG's reliance on reasonable assumptions and estimates in calculating this liability, AIG considers the U.S. federal income taxes accrued on the earnings of certain foreign subsidiaries to be a critical accounting estimate.

Fair Value Measurements of Certain Financial Assets and Liabilities:

Overview

AIG measures at fair value on a recurring basis financial instruments in its trading and available for sale securities portfolios, certain mortgage and other loans receivable, certain spot commodities, derivative assets and liabilities, securities purchased/sold under agreements to resell/repurchase, securities lending invested collateral, non-traded equity investments and certain private limited partnerships and certain hedge funds included in other invested assets, certain short-term investments, separate and variable account assets, certain policyholder contract deposits, securities and spot commodities sold but not yet purchased, certain trust deposits and deposits due to banks and other depositors, certain CPFF and other commercial paper, certain long-term debt, and certain hybrid financial instruments included in other liabilities. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

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

AIG management is responsible for the determination of the value of the financial assets and financial liabilities carried at fair value and the supporting methodologies and assumptions. With respect to securities, 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 internal 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 internal 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, interest rate yield curves, credit spreads, currency rates, 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 employs specific control processes to determine the reasonableness of the fair values of AIG's financial assets and financial liabilities. AIG's processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, 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 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 fair value of fixed income and equity securities by source of value determination was as follows:

At September 30, 2009 *(in billions)*	**Fair Value**	**Percent of Total**
Fair value based on external sources[(a)]	$ 407	93%
Fair value based on internal sources	30	7
Total fixed income and equity securities[(b)]	$ 437	100%

(a) *Includes $28.1 billion whose primary source is broker quotes.*

(b) *Includes available for sale, trading and securities lending invested collateral securities.*

See Note 4 to the Consolidated Financial Statements for more detailed information about AIG's accounting policy for the incorporation of credit risk in fair value measurements and the measurement of fair value of financial assets and financial liabilities.

Level 3 Assets and Liabilities

Assets and liabilities recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair value. See Note 4 to the Consolidated Financial Statements for additional information about fair value measurements.

At September 30, 2009, AIG classified $39.8 billion and $18.5 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 4.7 percent and 2.4 percent of the total assets and liabilities, respectively, measured at fair value on a recurring basis at September 30, 2009. At December 31, 2008, AIG classified $42.1 billion and $21.1 billion of assets and liabilities, respectively, measured at fair value on a recurring basis as Level 3. This represented 4.9 percent and 2.6 percent of the total assets and liabilities, respectively, measured at fair value on a recurring basis at December 31, 2008. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. These measurements are made under circumstances in which there is little, if any, market activity for the asset or liability. 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. In certain cases, the inputs used to measure fair value of an asset or a liability 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 is classified is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

165

Valuation of Level 3 Assets and Liabilities

AIG values its assets and liabilities classified as Level 3 using judgment and valuation models or other pricing techniques that 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, some of which may be unobservable. The following paragraphs describe the methods AIG uses to measure on a recurring basis the fair value of the major classes of assets and liabilities classified in Level 3.

Private equity and real estate fund investments: These assets initially are valued at the transaction price, i.e., the price paid to acquire the asset. Subsequently, they are measured based on net asset value using information provided by the general partner or manager of these investments, the accounts of which generally are audited on an annual basis. AIG considers observable market data and performs diligence procedures in validating the appropriateness of using the net asset value as a fair value measurement.

Corporate bonds and private placement debt: These assets initially are valued at the transaction price. Subsequently, they are valued using market data for similar instruments (e.g., recent transactions, bond spreads or credit default swap spreads), comparisons to benchmark derivative indices or movements in underlying credit spreads. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond or single-name credit default swap spreads and estimated recovery rates.

Certain RMBS and CMBS: These assets initially are valued at the transaction price. Subsequently, they may be valued by comparison to transactions in instruments with similar collateral and risk profiles, remittances received and updated cumulative loss data on underlying obligations, discounted cash flow techniques, and/or for RMBS option adjusted spread analyses.

Certain Asset-Backed Securities non-mortgage: These assets initially are valued at the transaction price. Subsequently, they may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities.

CDOs: These assets initially are valued at the transaction price. Subsequently, they are valued based on external price/spread data from independent third parties, dealer quotations, matrix pricing, the Binomial Expansion Technique (BET) model or a combination thereof.

Interests in the Maiden Lane Interests: At their inception, ML II and ML III were valued at the transaction prices of $1 billion and $5 billion, respectively. Subsequently, Maiden Lane Interests are valued using a discounted cash flow methodology that uses the estimated future cash flows of the assets to which the Maiden Lane Interests are entitled and the discount rates applicable to such interests as derived from the fair value of the entire asset pool. The implicit discount rates are calibrated to the changes in the estimated asset values for the underlying assets commensurate with AIG's interests in the capital structure of the respective entities. Estimated cash flows and discount rates used in the valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms.

The fair value methodology used assumes that the underlying collateral in the Maiden Lane Interests will continue to be held and generate cash flows into the foreseeable future and does not assume a current liquidation of the assets of the Maiden Lane Interests. Other methodologies employed or assumptions made in determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

As of September 30, 2009, AIG expected to receive cash flows (undiscounted) in excess of AIG's initial investment, and any accrued interest, in the Maiden Lane interests over the remaining life of the investments after repayment of the first priority obligations owed to the FRBNY. AIG's cash flow methodology considers the capital structure of the collateral securities and their expected credit losses from the underlying assets pools.

See Note 4 to the Consolidated Financial Statements for a sensitivity analysis and further discussion on the fair value of the Maiden Lane Interests.

AIGFP's Super Senior Credit Default Swap Portfolio: AIGFP wrote credit protection on the super senior risk layer of collateralized loan obligations (CLOs), multi-sector CDOs and diversified portfolios of corporate debt, and prime residential mortgages. In these transactions, AIGFP is at risk of credit performance on the super senior risk layer related to such assets. To a lesser extent, AIGFP also wrote protection on tranches below the super senior risk layer, primarily in respect of regulatory capital relief transactions.

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

	Net Notional Amount		Fair Value of Derivative Liability at		Unrealized Market Valuation Gain (Loss)			
					Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**September 30, 2009[(a)(b)]**	**December 31, 2008[(a)]**	**September 30, 2009[(b)(c)]**	**December 31, 2008[(c)]**	**2009[(d)]**	**2008[(d)]**	**2009[(d)]**	**2008[(d)]**
Regulatory Capital:								
Corporate loans	**$ 71,749**	$ 125,628	**$ -**	$ -	**$ -**	$ -	**$ -**	$ -
Prime residential mortgages	**98,002**	107,246	**-**	-	**-**	-	**-**	-
Other[(e)]	**1,953**	1,575	**31**	379	**16**	(272)	**25**	(397)
Total	**171,704**	234,449	**31**	379	**16**	(272)	**25**	(397)
Arbitrage:								
Multi-sector CDOs[(f)(g)]	**8,174**	12,556	**4,510**	5,906	**332**	(6,262)	**(761)**	(19,868)
Corporate debt/CLOs[(h)]	**22,577**	50,495	**456**	2,554	**566**	(538)	**1,716**	(1,308)
Total	**30,751**	63,051	**4,966**	8,460	**898**	(6,800)	**955**	(21,176)
Mezzanine tranches[(i)]	**3,504**	4,701	**32**	195	**45**	18	**163**	(153)
Total	**$ 205,959**	$ 302,201	**$ 5,029**	$ 9,034	**$ 959**	$ (7,054)	**$ 1,143**	$ (21,726)

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

(b) *During the third quarter of 2009, AIGFP terminated certain super senior CDS transactions with its counterparties with a net notional amount of $2.6 billion, comprised of $247 million in Multi-sector CDO and $2.4 billion in Corporate debt/CLOs. These transactions were terminated at approximately their fair value at the time of the termination. As a result, a $277 million loss, which was previously included in the fair value derivative liability as an unrealized market valuation loss, was realized. AIGFP also extinguished its obligation with respect to a Multi-sector CDO by purchasing the protected CDO security for $496 million, its principal amount outstanding related to this obligation. Upon purchase, the CDO security was included in the available for sale portfolio at fair value.*

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

(d)

Includes credit valuation adjustment loss of $85 million and gain of $98 million in the three-month periods ended September 30, 2009 and 2008, respectively, and credit valuation adjustment gains of $4 million and $207 million in the nine-month periods ended September 30, 2009 and 2008, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.

(e)

During the first nine months of 2009, AIGFP reclassified one regulatory capital CDS transaction from Regulatory Capital Corporate loans to Regulatory Capital Other, given the higher likelihood that it will not be terminated when the regulatory capital benefit expires for the counterparty.

(f)

Includes $6.4 billion and $9.7 billion in net notional amount of credit default swaps written with cash settlement provisions at September 30, 2009 and December 31, 2008, respectively.

(g)

During the fourth quarter of 2008, AIGFP terminated the majority of the CDS transactions written on multi-sector CDOs in connection with the ML III transaction.

(h)

Includes $1.5 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs as of both September 30, 2009 and December 31, 2008.

(i)

Net of offsetting purchased CDS of $1.6 billion and $2.0 billion in net notional amount at September 30, 2009 and December 31, 2008, respectively.

The changes in the net notional amount of the AIGFP super senior credit default swap portfolio, including credit default swaps written on mezzanine tranches of certain regulatory capital relief transactions were as follows:

For the Nine Months Ended September 30, 2009 *(in millions)*	**Net Notional Amount December 31, 2008**	**Terminations and Maturities**[a]	**Effect of Foreign Exchange Rates**[b]	**Amortization/ Reclassification, net of Replenishments**[c][d]	**Net Notional Amount September 30, 2009**
Regulatory Capital:					
Corporate loans	$ 125,628	$ (41,707)	$ 2,836	$ (15,008)	$ 71,749
Prime residential mortgages	107,246	(11,728)	4,562	(2,078)	98,002
Other	1,575	(1,464)	101	1,741	1,953
Total	234,449	(54,899)	7,499	(15,345)	171,704
Arbitrage:					
Multi-sector CDOs	12,556	(3,537)	153	(998)	8,174
Corporate debt/CLOs	50,495	(28,075)	256	(99)	22,577
Total	63,051	(31,612)	409	(1,097)	30,751
Mezzanine tranches	4,701	(703)	208	(702)	3,504
Total	$ 302,201	$ (87,214)	$ 8,116	$ (17,144)	$ 205,959

(a) *During the nine months ended September 30, 2009, AIGFP terminated certain CDS transactions with its counterparties in net notional amount of $62.5 billion, comprised of $35.7 billion in Regulatory Capital Corporate loans, $11.7 billion in Regulatory Capital Prime residential mortgages, $1.5 billion in Regulatory Capital Other, $3.5 billion in Multi-sector CDOs, $9.5 billion in Corporate debt/CLOs and $653 million in Mezzanine tranches.*

(b) *Relates to the weakening of the U.S. dollar, primarily against the Euro and the British Pound.*

(c) *During the first nine months of 2009, AIGFP reclassified one regulatory capital CDS transaction from Regulatory Capital Corporate loans to Regulatory Capital other.*

(d) *During the second quarter of 2009, AIGFP reclassified two mezzanine trades having net notional amounts of $462 million and $240 million, respectively, into Regulatory Capital Corporate loans and Regulatory Capital Other, respectively, after determining that the trades were not stand-alone but rather part of the related regulatory capital trades. The effect on unrealized market valuation gain (loss) was not significant.*

The summary statistics for AIGFP's super senior credit default swaps at September 30, 2009 and totals for December 31, 2008 were as follows:

	Regulatory Capital Portfolio				**Arbitrage Portfolio**				**Total**	
Category	**Corporate Loans**	**Prime Residential Mortgages**	**Other**	**Subtotal**	**Corporate Debt/ CLOs**	**Multi-Sector CDOs w/ Subprime**	**Multi-Sector CDOs w/ No Subprime**	**Subtotal**	**September 30, 2009**	**December 31, 2008**

Gross Transaction Notional Amount (in millions)	$ 97,385	$ 122,373	$ 2,273	$ 222,031	$ 31,924	$ 7,773	$ 10,785	$ 50,482	**$ 272,513**	$ 390,100
Net Notional Amount (in millions)	71,749	98,002	1,953	171,704	22,577	3,850	4,324	30,751	**202,455**	297,500
Number of Transactions	17	19	1	37	20	10	6	36	**73**	109
Weighted Average Subordination (%)	20.29%	13.37%	14.08%	16.42%	22.84%	39.41%	21.34%	25.07%	**18.02%**	16.90%
Weighted Average Number of Obligors / Transaction	1,647	96,529	275		116	153	121			
Expected Maturity (Years)	0.59	0.41	6.04		4.76	4.87	4.83			

168

Regulatory Capital Portfolio

During the nine-month period ended September 30, 2009, $53.4 billion in net notional amount was terminated or matured at no cost to AIGFP. Through October 30, 2009, AIGFP had also received a formal termination notice with respect to an additional $9.5 billion in net notional amount with an effective termination date in 2009. AIG expects that the counterparties in the remaining regulatory capital CDS transactions will terminate the majority of these transactions with AIGFP within the next six months during the transition period of the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II). AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of the Capital Accord of the Basel Committee on Banking Supervision (Basel I) that existed through the end of 2007 and which is in the process of being replaced by Basel II. It is expected that financial institution counterparties will have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they will receive little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances. However, the Basel Committee recently announced that it has agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

During the first nine months of 2009, AIGFP reclassified one regulatory capital CDS transaction from Regulatory Capital Corporate loans to Regulatory Capital Other given the higher likelihood that it will not be terminated when the regulatory capital benefit expires for the counterparty. AIG does not believe that at this time the CDS provides significant risk transfer benefit to the counterparty; however, AIGFP will continue to monitor this transaction closely.

During April 2009, AIGFP effected the early termination of a CDS transaction written on a European RMBS security of $1.5 billion in net notional amount that was reported as part of Regulatory Capital Other at March 31, 2009 at a level approximating its fair value at that time. Given its unique structure and concentrated exposure to high loan-to-value Spanish residential mortgages, this transaction had exposed AIGFP to a relatively higher level of liquidity and credit risk than any other regulatory capital CDS exposure, and AIG felt it prudent to terminate the transaction to avoid further deterioration.

In light of early termination experience to date and after analyses of other market data, to the extent deemed relevant and available, AIG determined that there was no unrealized market valuation adjustment for any of the transactions in this regulatory capital relief portfolio for the nine months ended September 30, 2009 other than for transactions where AIGFP believes the counterparty is no longer using the transaction to obtain regulatory capital relief as discussed above. Although AIGFP believes the value of contractual fees receivable on these transactions through maturity exceeds the economic benefits of any potential payments to the counterparties, the counterparties' early termination rights, and AIGFP's expectation that such rights will be exercised, preclude the recognition of a derivative asset for these transactions.

Table of Contents

The following table presents, for each of the regulatory capital CDS transactions in the corporate loan portfolio, the gross transaction notional amount at September 30, 2009, net notional amount at September 30, 2009, attachment point at inception and at September 30, 2009, inception to date realized losses through September 30, 2009 and percent non-investment grade at September 30, 2009:

(dollars in millions) CDS	Gross Transaction Notional Amount at September 30, 2009	Net Notional Amount at September 30, 2009	Attachment Point at Inception[(a)]	Attachment Point at September 30, 2009[(a)]	Realized Losses through September 30, 2009[(b)]	Percent Non-investment Grade at September 30, 2009[(c)]
1	$ 832	$ 727	10.03%	12.58%	0.52%	19.71%
2	14,630	8,193	44.00%	44.00%	0.00%	1.06%
3	2,419	2,159	10.00%	10.75%	0.15%	55.64%
4[(d)]	9,585	8,143	15.02%	15.04%	0.00%	18.60%
5	8,772	7,790	11.00%	11.19%	0.00%	11.06%
6	549	286	18.00%	47.92%	0.00%	64.50%
7	11,223	9,958	10.80%	11.27%	0.00%	5.91%
8	8,275	6,758	11.30%	18.33%	0.16%	23.09%
9	5,543	4,904	11.00%	11.52%	0.09%	11.99%
10	4,849	4,177	13.26%	13.86%	0.00%	72.65%
11	10,241	3,138	12.00%	12.00%	0.00%	5.47%
12	2,419	2,023	15.85%	16.38%	0.00%	9.75%
13	4,069	3,265	14.50%	19.75%	0.00%	74.75%
14	1,615	1,195	14.00%	25.98%	0.00%	34.07%
15	1,042	772	14.00%	25.98%	0.00%	34.07%
16	2,237	1,656	14.00%	25.98%	0.00%	34.07%
17	9,085	6,605	17.00%	27.30%	0.05%	15.56%
Total	$ 97,385	$ 71,749				

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios and replenishment rights, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through September 30, 2009 expressed as a percentage of the initial gross transaction notional amount.*

(c) *Represents non-investment grade obligations in the underlying pools of corporate loans expressed as a percentage of gross transaction notional amount.*

(d) *Terminated effective October 5, 2009.*

Table of Contents

The following table presents, for each of the regulatory capital CDS transactions prime residential mortgage portfolio, the gross transaction notional amount at September 30, 2009, net notional amount at September 30, 2009, attachment point at inception and at September 30, 2009, and inception to date realized losses through September 30, 2009:

(dollars in millions) CDS	Gross Transaction Notional Amount at September 30, 2009	Net Notional Amount at September 30, 2009	Attachment Point at Inception[(a)]	Attachment Point at September 30, 2009[(a)]	Realized Losses through September 30, 2009[(b)]
1	$ 569	$ 338	17.01%	40.60%	2.31%
2	370	216	18.48%	41.58%	1.70%
3[(c)]	2,000	1,337	14.70%	33.15%	0.09%
4	323	220	16.81%	32.03%	1.14%
5	1,420	1,274	10.00%	10.30%	0.00%
6	2,204	1,659	10.70%	24.76%	0.04%
7	444	349	13.19%	21.30%	0.34%
8[(d)]	6,146	5,634	7.95%	8.34%	0.02%
9[(d)]	2,073	1,685	7.95%	18.70%	0.04%
10[(d)]	5,839	5,379	8.00%	7.87%	0.03%
11	32,190	18,996	18.25%	18.25%	0.00%
12[(d)]	6,698	6,180	7.85%	7.73%	0.01%
13	11,789	10,908	7.50%	7.48%	0.02%
14[(d)]	8,879	8,179	7.95%	7.88%	0.01%
15	2,729	2,201	12.40%	19.32%	0.00%
16	24,865	22,583	9.20%	9.18%	0.02%
17	4,422	2,974	11.50%	17.12%	0.00%
18	7,716	6,679	11.50%	13.44%	0.00%
19	1,697	1,211	14.57%	28.65%	0.00%
Total	$ 122,373	$ 98,002			

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations. As a result of participation ratios and replenishment rights, the attachment point may not always be computed by dividing net notional amount by gross transaction notional amount.*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through September 30, 2009 expressed as a percentage of the initial gross transaction notional amount.*

(c) *Terminated effective October 28, 2009.*

(d) *Delinquency information is not provided to AIGFP for the underlying pools of residential mortgages of these transactions. However, information with respect to principal amount outstanding, defaults, recoveries, remaining term, property use, geography, interest rates, and ratings of the underlying junior tranches are provided to AIGFP for such referenced pools.*

All of the regulatory capital CDS 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.

As further discussed below, AIGFP receives information monthly or quarterly regarding the performance and credit quality of the underlying referenced assets. AIGFP also obtains other information, such as ratings of the tranches below the super senior risk layer. The nature of the information provided or otherwise available to AIGFP with respect to the underlying assets in each regulatory capital CDS transaction is not consistent across all transactions. Furthermore, in a majority of corporate loan transactions and all of the residential mortgage transactions, the pools are blind, meaning that the identities of the obligors are not disclosed to AIGFP. In addition, although AIGFP receives periodic reports on the underlying asset pools, virtually all of the regulatory capital CDS transactions contain confidentiality restrictions that preclude AIGFP's public disclosure of information relating to the underlying referenced assets. The originating financial institutions, calculation agents or trustees (each a Report

171

Provider) provide periodic reports on all underlying referenced assets as described below, including for those within the blind pools. While much of this information received by AIGFP cannot be aggregated in a comparable way for disclosure purposes because of the confidentiality restrictions and the inconsistency of the information, it does provide a sufficient basis for AIGFP to evaluate the risks of the portfolio and to determine a reasonable estimate of fair value.

For regulatory capital CDS transactions written on underlying pools of corporate loans, AIGFP receives monthly or quarterly updates from one or more Report Providers for each such referenced pool detailing, with respect to the corporate loans comprising such pool, the principal amount outstanding and defaults. In virtually all of these reports, AIGFP also receives information on recoveries and realized losses. AIGFP also receives quarterly stratification tables for each pool incorporating geography, industry and, when not publicly rated, the counterparty's assessment of the credit quality of the underlying corporate loans. Additionally, for a significant majority of these regulatory capital CDS transactions, upon the occurrence of a credit event with respect to any corporate loan included in any such pool, AIG receives a notice detailing the identity or identification number of the borrower, notional amount of such loan and the effective date of such credit event.

Ratings from independent ratings agencies for the underlying assets of the corporate loan portfolio are not universally available, but AIGFP estimates the ratings for the assets not rated by independent agencies by mapping the information obtained from the Report Providers to rating agency criteria. The "Percent Non-Investment Grade" information in the table above is provided as an indication of the nature of loans underlying the transactions, not necessarily as an indicator of relative risk of the CDS transactions, which is determined by the individual transaction structures. For example, Small and Medium Enterprise (SME) loan balances tend to be rated lower than loans to large, well-established enterprises. However, the greater number of loans and the smaller average size of the SME loans mitigate the risk profile of the pools. In addition, the transaction structures reflect AIGFP's assessment of the loan collateral arrangements, expected recovery values, and reserve accounts in determining the level of subordination required to minimize the risk of loss. The percentage of non-investment grade obligations in the underlying pools of corporate loans varies considerably. The four pools containing the highest percentages of non-investment grade obligations, which include all transactions with pools having non-investment grade percentages greater than 35.00 percent, are all granular SME loan pools which benefit from collateral arrangements made by the originating financial institutions and from work out of recoveries by the originating financial institutions. The average number of loans in each pool is over 5,000. This large number of SME loans increases the predictability of the expected loss and lessens the probability that discrete events will have a meaningful impact on the results of the overall pool. Three of the four transactions benefit from a tranche junior to it which was still rated AAA by at least two rating agencies at September 30, 2009 and the fourth was rated A-. Three other pools, with a total net notional amount of $3.6 billion, have non-investment grade percentages greater than 25 percent, each with a remaining life to maturity of 16.5 years. These pools have no realized losses from inception through September 30, 2009 and have current attachment points of 25.98 percent. Approximately 0.26 percent of the assets underlying the corporate loan transactions are in default. The percentage of assets in default by transaction was available for all transactions and ranged from 0.00 percent to 1.80 percent.

For regulatory capital CDS transactions written on underlying pools of residential mortgages, AIGFP receives quarterly reports for each such referenced pool detailing, with respect to the residential mortgages comprising such pool, the aggregate principal amount outstanding, defaults and realized losses. These reports include additional information on delinquencies for the large majority of the transactions and recoveries for substantially all transactions. AIGFP also receives quarterly stratification tables for each pool incorporating geography for the underlying residential mortgages. The stratification tables also include information on remaining term, property use and interest rates for a large majority of the transactions.

Delinquency information for the mortgages underlying the residential mortgage transactions was available on approximately 76 percent of the total gross transaction notional amount and mortgages delinquent more than 30 days ranged from 0.08 percent to 3.59 percent, averaging 0.78 percent. For all but three transactions, which comprised less than 1.50 percent of the total gross transaction notional amount, the average default rate (expressed as a percentage of gross transaction notional amount) was 0.31 percent and ranged from 0.00 percent to 2.28 percent. The default rate on the remaining three transactions ranged from 4.47 percent to 14.51 percent. The subordination on these three transactions ranged from 32.03 percent to 41.58 percent.

Where the rating agencies directly rate the junior tranches of the pools, AIG monitors the rating agencies' releases for any affirmations or changes in such ratings, as well as any changes in rating methodologies or assumptions used by the rating agencies to the extent available. The tables below show the percentage of regulatory capital CDS transactions where there is an immediately junior tranche that is rated and the average rating of that tranche across all rated transactions.

AIGFP analyzes the information regarding the performance and credit quality of the underlying pools of assets to make its own risk assessment and to determine any changes in credit quality with respect to such pools of assets. This analysis includes a review of changes in pool balances, subordination levels, delinquencies, realized losses, and expected performance under more adverse credit conditions. Using data provided by the Report Providers, and information available from rating agencies, governments, and other public sources that relate to macroeconomic trends and loan performance, AIGFP is able to analyze the expected performance of the overall portfolio because of the large number of loans with similar characteristics that comprise the collateral pools.

Given the current performance of the underlying portfolios, the level of subordination and AIGFP's own assessment of the credit quality, 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. Further, AIGFP expects that counterparties will terminate these transactions prior to their maturity.

The following table presents AIGFP's Regulatory Capital Corporate loans portfolio by geographic location:

At September 30, 2009					Weighted Average Maturity (Years)			Ratings of Junior Tranches[c]	
Exposure Portfolio	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point[a]	Realized Losses through September 30, 2009[b]	To First Call	To Maturity	Number of Transactions	Percent Rated	Average Rating
Primarily Single Country:									
Germany	$ 7,063	9.84%	12.80%	0.12%	2.99	9.33	3	100%	AA+
Netherlands	3,265	4.55	19.75	-	0.47	44.22	1	100	AAA
Finland	286	0.40	47.92	-	2.29	5.29	1	100	AAA
Subtotal Single Country	$ 10,614	14.79%	16.54%		2.16	20.32	5	100%	AA+
Regional:									
Asia	2,023	2.82	16.38	-	0.25	2.50	1	100	AAA
Europe	50,969	71.04	21.77	0.05	0.40	5.31	10	100	AA+
North America	8,143	11.35	15.04	-	0.01	1.76	1	100	AA+

Subtotal Regional		61,135	85.21	20.85	0.35	4.83	12	100	AA+
Total	$	71,749	100.00%	20.29%	0.59	6.85	17	100%	AA+

(a)
Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b)
Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through September 30, 2009 expressed as a percentage of the initial gross transaction notional amount.

(c)
Represents the weighted average ratings, when available, of the tranches immediately junior to AIGFP's super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to AIGFP's super senior tranche.

173

The following table presents AIGFP's Regulatory Capital Prime residential mortgage portfolio summarized by geographic location:

At September 30, 2009	Net Notional Amount (in millions)	Percent of Total	Current Average Attachment Point[(a)]	Realized Losses through September 30, 2009[(b)]	Weighted Average Maturity (Years) To First Call	To Maturity	Number of Transactions	Ratings of Junior Tranches[(c)] Percent Rated	Average Rating
Country:									
Denmark	$ 36,465	37.21%	9.55%	0.02%	0.33	30.03	3	100.00%	AAA
France	27,057	27.61	8.70	0.02	0.46	30.49	5	100.00	AAA
Germany	7,531	7.68	27.14	0.65	1.00	33.82	8	83.92	AAA
Netherlands	20,270	20.68	17.91	-	0.31	5.22	2	93.72	AAA
Sweden	6,679	6.82	13.44	-	0.35	30.35	1	100.00	AAA
Total	$ 98,002	100.00%	13.37%		0.41	23.67	19	97.46%	AAA

(a) *Expressed as a percentage of gross transaction notional amount of the referenced obligations.*

(b) *Represents realized losses incurred by the transaction (defaulted amounts less amounts recovered) from inception through September 30, 2009 expressed as a percentage of the initial gross transaction notional amount.*

(c) *Represents the weighted average ratings, when available, of the tranches immediately junior to AIGFP's super senior tranche. The percentage rated represents the percentage of net notional amount where there exists a rated tranche immediately junior to AIGFP's super senior tranche.*

Arbitrage Portfolio

A total of $30.8 billion in net notional amount of AIGFP's super senior credit default swaps as of September 30, 2009 are arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

Multi-Sector CDOs

The gross transaction notional amount of the multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, subordination below the super senior risk layer, net notional amount and fair value of derivative liability by underlying collateral type were as follows:

At September 30, 2009 *(in millions)*	Gross Transaction Notional Amount[(a)]	Subordination Below the Super Senior Risk Layer	Net Notional Amount	Fair Value of Derivative Liability
High grade with sub-prime collateral	$ 3,754	$ 2,101	$ 1,653	$ 745
High grade with no sub-prime collateral	9,104	5,576	3,528	1,469

Total high grade[b]	12,858	7,677	5,181	2,214
Mezzanine with sub-prime collateral	4,019	1,822	2,197	1,706
Mezzanine with no sub-prime collateral	1,681	885	796	590
Total mezzanine[c]	5,700	2,707	2,993	2,296
Total	$ 18,558	$ 10,384	$ 8,174	$ 4,510

(a)
Total outstanding principal amount of securities held by a CDO.

(b)
"High grade" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly AA or higher at origination.

(c)
"Mezzanine" refers to transactions in which the underlying collateral credit ratings on a stand-alone basis were predominantly A or lower at origination.

Table of Contents

The net notional amounts of the remaining multi-sector CDOs on which AIGFP wrote protection on the super senior tranche, by settlement alternative, were as follows:

(in millions)	September 30, 2009	December 31, 2008
CDS transactions with cash settlement provisions		
US dollar-denominated	**$ 4,643**	$ 7,947
Euro-denominated	**1,786**	1,780
Total CDS transactions with cash settlement provisions	**6,429**	9,727
CDS transactions with physical settlement provisions		
US dollar-denominated	**299**	766
Euro-denominated	**1,446**	2,063
Total CDS transactions with physical settlement provisions	**1,745**	2,829
Total	**$ 8,174**	$ 12,556

The changes in the fair values of the derivative liability of the AIGFP super senior multi-sector CDO credit default swap portfolio were as follows:

(in millions)	Nine Months Ended September 30, 2009	Year Ended December 31, 2008
Fair value of derivative liability, beginning of period	**$ 5,906**	$ 11,246
Unrealized market valuation (gain) loss	**761**	25,700
Purchases of underlying CDO securities[(a)]	**(234)**	(995)
Terminated in connection with the ML III transaction[(b)]	**-**	(30,045)
Other terminations	**(1,923)**	-
Fair value of derivative liability, end of period	**$ 4,510**	$ 5,906

(a)

In connection with the exercise of the 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) by counterparties, AIGFP acquired the underlying CDO securities. In certain cases, simultaneously with the exercise of the 2a-7 Puts by AIGFP's counterparties, AIGFP accessed financing arrangements previously entered into with such counterparties, pursuant to which the counterparties remained the legal owners of the underlying CDO securities. However, these securities were reported as part of AIGFP's investment portfolio as required by generally accepted accounting principles. Most of these underlying CDO securities were later acquired by ML III from AIGFP's counterparties. In a separate case, AIGFP extinguished its obligations with respect to one CDS by purchasing the protected CDO security.

(b)

The CDS in respect of the ML III transaction were terminated in the fourth quarter of 2008 based on the fair value of the underlying multi-sector CDOs at October 31, 2008, as mutually agreed between the FRBNY and AIG. AIGFP recognized the change in fair value of the CDS through that date.

The unrealized market valuation gain (loss) of the AIGFP super senior multi-sector CDO credit default swaps were as follows:

(in millions)	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008	Year Ended December 31, 2008	Year Ended December 31, 2007
CDS - terminated in connection with ML III	**$ -**	$ (5,816)	**$ -**	$ (16,894)	$ (20,365)	$ (9,680)
CDS - underlying CDO purchased by AIGFP	**11**	(95)	**(29)**	(985)	(1,059)	(141)
CDS - cash terminations	**-**	(102)	**(408)**	(428)	(997)	(517)
CDS - all other	**321**	(249)	**(324)**	(1,561)	(3,279)	(908)
Total	**$ 332**	$ (6,262)	**$ (761)**	$ (19,868)	$ (25,700)	$ (11,246)

175

Table of Contents

The following table presents, for each multi-sector CDO that is a reference obligation in a CDS written by AIGFP, the gross and net notional amounts at September 30, 2009, attachment points at inception and at September 30, 2009 and percentage of gross notional amount rated less than B-/B-3 at September 30, 2009:

CDO		Gross Notional Amount at September 30, 2009		Net Notional Amount at September 30, 2009	Attachment Point at Inception*	Attachment Point at September 30, 2009*	Percentage of Gross Notional Amount Rated Less than B-/B-3 at September 30, 2009
1	$	1,156	$	449	40.00%	61.15%	53.53%
2		693		326	53.00%	52.91%	28.07%
3		988		470	53.00%	52.41%	62.41%
4		1,307		300	76.00%	77.07%	69.95%
5		965		4	10.83%	10.56%	23.52%
6		287		198	39.33%	31.10%	89.99%
7		1,145		581	12.27%	6.08%	6.36%
8		1,248		865	25.24%	25.64%	11.30%
9		1,482		1,350	10.00%	8.92%	26.94%
10		542		299	33.00%	44.79%	70.90%
11		2,598		1,785	16.50%	18.49%	1.24%
12		418		219	32.00%	47.59%	68.87%
13		683		418	24.49%	38.81%	72.92%
14		628		417	32.90%	33.62%	93.92%
15		305		197	34.51%	35.47%	94.16%
16		4,113		296	9.72%	13.31%	56.32%
Total	$	18,558	$	8,174			

*

Expressed as a percentage of gross notional amount.

In a number of instances, the level of subordination with respect to individual CDOs has increased since inception relative to the overall size of the CDO. While the super senior tranches are amortizing, subordinate layers have not been reduced by realized losses to date. Such losses are expected to emerge in the future. At inception, substantially all of the underlying assets were rated B-/B3 or higher and in most cases at least BBB or Baa. Thus, the percentage of gross notional amount rated less than B-/B3 represents deterioration in the credit quality of the underlying assets.

The gross transaction notional amount, percentage of the total CDO collateral pools, and ratings and vintage breakdown of collateral securities in the multi-sector CDOs, by asset-backed securities (ABS) category, were as follows:

At September 30, 2009
(in millions)

ABS Category		Gross Transaction Notional Amount	Percent of Total	Ratings							Vintage				
				AAA	AA	A	BBB	BB	<BB	NR	2009	2008	2007	2006	2005+P
	$	2,357	12.70%	0.48%	0.64%	0.74%	1.51%	3.16%	6.17%	0.00%	0.00%	0.38%	7.29%	3.56%	1.47%

RMBS PRIME															
RMBS ALT-A		3,072	16.55%	0.13%	0.18%	0.31%	1.41%	1.21%	13.31%	0.00%	0.00%	0.68%	4.56%	6.04%	5.27%
RMBS SUBPRIME		4,106	22.13%	0.69%	1.01%	0.62%	0.93%	1.04%	17.84%	0.00%	0.00%	0.00%	1.06%	1.92%	19.15%
CMBS		3,390	18.27%	2.63%	1.67%	1.83%	3.97%	2.31%	5.28%	0.58%	0.00%	0.09%	1.67%	7.92%	8.59%
CDO		1,938	10.44%	0.26%	0.87%	1.07%	0.89%	0.87%	6.30%	0.18%	0.00%	0.00%	0.65%	1.73%	8.06%
OTHER		3,695	19.91%	5.37%	4.91%	5.19%	2.94%	0.70%	0.48%	0.32%	0.00%	0.60%	1.07%	5.09%	13.15%
Total	$	18,558	100.00%	9.56%	9.28%	9.76%	11.65%	9.29%	49.38%	1.08%	0.00%	1.75%	16.30%	26.26%	55.69%

Corporate Debt/CLOs

The corporate arbitrage portfolio consists principally of CDS written on portfolios of corporate obligations that were generally rated investment grade at the inception of the CDS. These CDS transactions require cash settlement. This portfolio also includes CDS with a net notional amount of $1.5 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

176

Table of Contents

The gross transaction notional amount of CDS transactions written on portfolios of corporate obligations, percentage of the total referenced portfolios, and ratings by industry sector, in addition to the subordinations below the super senior risk layer, AIGFP's net notional amounts and fair value of derivative liability were as follows:

At September 30, 2009 *(in millions)* **Industry Sector**		**Gross Transaction Notional Amount**	**Percent of Total**	**Ratings** AAA	Aa	A	Baa	Ba	<Ba	NR
United States Industrial	$	10,676	33.4%	0.2%	5.6%	15.1%	3.8%	6.6%	2.1%	0.0%
Financial		3,857	12.1%	0.2%	3.9%	3.3%	0.3%	2.9%	1.5%	0.0%
Utilities		844	2.6%	0.0%	0.2%	1.8%	0.0%	0.1%	0.5%	0.0%
Other		31	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
Total United States		15,408	48.2%	0.4%	9.7%	20.2%	4.1%	9.6%	4.2%	0.0%
Non-United States Industrial		12,887	40.4%	0.8%	7.2%	13.7%	3.6%	2.5%	12.6%	0.0%
Financial		1,625	5.1%	0.4%	2.6%	1.4%	0.1%	0.2%	0.4%	0.0%
Government		1,080	3.4%	0.2%	1.5%	1.3%	0.3%	0.0%	0.1%	0.0%
Utilities		711	2.2%	0.0%	1.0%	0.7%	0.0%	0.0%	0.5%	0.0%
Other		213	0.7%	0.0%	0.1%	0.0%	0.1%	0.1%	0.4%	0.0%
Total Non-United States		16,516	51.8%	1.4%	12.4%	17.1%	4.1%	2.8%	14.0%	0.0%
Total gross transaction notional amount		31,924	100.0%	1.8%	22.1%	37.3%	8.2%	12.4%	18.2%	0.0%
Subordination		9,347								
Net Notional Amount	$	22,577								
Fair Value of Derivative Liability	$	456								

The following table presents, for each of the corporate debt and CLO CDS transactions, the net notional amounts at September 30, 2009, attachment points at inception and at September 30, 2009 and inception to date defaults through September 30, 2009:

(dollars in millions) **CDS**	**Type**		**Net Notional Amount at September 30, 2009**	**Attachment Point at Inception**[(a)]	**Attachment Point at September 30, 2009**[(a)]	**Defaults through September 30, 2009**[(b)]
1	Corporate debt	$	4,640	20.62%	18.68%	3.08%
2	Corporate debt		2,540	20.68%	19.63%	4.19%
3	Corporate debt		994	22.14%	20.67%	2.27%
4	Corporate debt		5,816	22.00%	20.76%	2.22%
5	Corporate debt		994	22.14%	20.67%	2.27%
6	Corporate debt		1,991	22.15%	21.08%	2.37%

7	Corporate debt		991	20.80%	19.04%	3.09%
8	Corporate debt		220	30.00%	30.00%	0.00%
9	Corporate debt		234	28.00%	27.68%	1.01%
10	Corporate debt		686	26.00%	29.28%	0.00%
11	Corporate debt		653	24.00%	23.50%	1.72%
12	Corporate debt		1,313	24.00%	23.48%	1.79%
13	CLO		248	35.85%	29.75%	4.07%
14	CLO		145	43.76%	39.87%	6.47%
15	CLO		195	44.20%	42.49%	5.66%
16	CLO		70	44.20%	42.49%	5.66%
17	CLO		167	44.20%	42.49%	5.66%
18	CLO		182	31.76%	33.35%	3.35%
19	CLO		360	30.40%	26.38%	2.29%
20	CLO		138	31.23%	26.93%	2.11%
Total		$	22,577			

(a)

Expressed as a percentage of gross transaction notional amount of the referenced obligations.

(b)

Represents defaults (assets that are technically defaulted but for which the losses have not yet been realized) from inception through September 30, 2009 expressed as a percentage of the gross transaction notional amount at September 30, 2009.

177

Collateral

Most of AIGFP's credit default swaps are subject to collateral posting provisions. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations to date have been associated with arbitrage transactions in respect of multi-sector CDOs.

Regulatory Capital Relief Transactions

As of September 30, 2009, 73.2 percent of AIGFP's regulatory capital relief transactions (measured by net notional amount) were subject to a Credit Support Annex (CSA) and 26.8 percent of the regulatory capital relief transactions were not subject to collateral posting provisions. In general, each regulatory capital relief transaction is subject to a stand-alone Master Agreement or similar agreement, under which the aggregate Exposure is calculated with reference to only a single transaction.

The underlying mechanism that determines the amount of collateral to be posted varies by counterparty, and there is no standard formula. The varied mechanisms resulted from individual negotiations with different counterparties. The following is a brief description of the primary mechanisms that are currently being employed to determine the amount of collateral posting for this portfolio.

Reference to Market Indices Under this mechanism, the amount of collateral to be posted is determined based on a formula that references certain tranches of a market index, such as either iTraxx or CDX. This mechanism is used for CDS transactions that reference either corporate loans, or residential mortgages. While the market index is not a direct proxy, it has the advantage of being readily obtainable.

Market Value of Reference Obligation Under this mechanism the amount of collateral to be posted is determined based on the difference between the net notional amount of a referenced RMBS security and the security's market value.

Expected Loss Models Under this mechanism, the amount of collateral to be posted is determined based on the amount of expected credit losses, generally determined using a rating-agency model.

Negotiated Amount Under this mechanism, the amount of collateral to be posted is determined based on terms negotiated between AIGFP and the counterparty, which could be a fixed percentage of the notional amount or present value of premiums to be earned by AIGFP.

The amount of collateral postings by underlying mechanism as described above with respect to the regulatory capital relief portfolio (prior to consideration of transactions other than AIGFP's super senior credit default swaps subject to the same Master Agreements) as of the periods ended were as follows (there were no collateral postings on this portfolio prior to March 31, 2008):

(in millions)	**March 31, 2008**	**June 30, 2008**	**September 30, 2008**	**December 31, 2008**	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**October 30, 2009**
Reference to market indices	$ 212	$ 177	$ 157	$ 667	$ 598	$ 293	$ 114	$ 73
Market value of referenced obligation	-	142	286	380	317	-	-	-
Expected loss models	-	-	-	5	24	26	27	27
Negotiated amount	-	-	-	235	225	220	236	235

Total	$	212	$	319	$	443	$	1,287	$	1,164	$	539	$	377	$	335

Collateral Calls

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 collateral postings with respect to AIGFP's super senior credit default swap portfolio (prior to offsets for other transactions) as of the periods ended were as follows:

(in millions)	March 31, 2008	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	September 30, 2009	October 30, 2009
Regulatory capital	$ 212	$ 319	$ 443	$ 1,287	$ 1,164	$ 539	$ 377	$ 335
Arbitrage multi-sector CDO	7,590	13,241	31,469	5,129	6,208	4,586	3,801	3,864
Arbitrage corporate	368	259	902	2,349	1,995	1,165	858	688
Total	$ 8,170	$ 13,819	$ 32,814	$ 8,765	$ 9,367	$ 6,290	$ 5,036	$ 4,887

The amount of future collateral posting requirements is a function of AIG's credit ratings, the rating of the reference obligations and any further decline in the market value of the relevant reference obligations, with the latter being the most significant factor. While a high level of correlation exists between the amount of collateral posted and the valuation of these contracts in respect of the arbitrage portfolio, a similar relationship does not exist with respect to the regulatory capital portfolio given the nature of how the amount of collateral for these transactions is determined. Given the severe market disruption, lack of observable data and the uncertainty regarding the potential effects on market prices of measures recently 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.

Valuation Sensitivity Arbitrage Portfolio

Multi-Sector CDOs

AIG utilizes sensitivity analyses that estimate the effects of using alternative pricing and other key inputs on AIG's calculation of the unrealized market valuation loss related to the AIGFP super senior credit default swap portfolio. While AIG believes that the ranges used in these analyses are reasonable, given the current difficult market conditions, AIG is unable to predict which of the scenarios is most likely to occur. As recent experience demonstrates, actual results in any period are likely to vary, perhaps materially, from the modeled scenarios, and there can be no assurance that the unrealized market valuation loss related to the AIGFP super senior credit default swap portfolio will be consistent with any of the sensitivity analyses. On average, prices for CDOs declined 9.96 percent and 5.57 percent of the notional amount outstanding for the first and second quarters of 2009, respectively. However, for the three-month period ended September 30, 2009, prices for CDOs increased by an average of 5.13 percent of the notional amount outstanding. Further, it is difficult to extrapolate future experience based on current dislocated market conditions.

For the purposes of estimating sensitivities for the super senior multi-sector CDO credit default swap portfolio, the change in valuation derived using the BET model is used to estimate the change in the fair value of the derivative liability. Out of the total $8.2 billion net notional amount of CDS written on multi-sector CDOs outstanding at September 30, 2009, a BET value is available for $5.0 billion net notional amount. No BET value is determined for $3.2 billion of CDS written on European multi-sector CDOs as prices on the underlying securities held by the CDOs are not provided by collateral managers; instead these CDS are valued using counterparty prices. Therefore, sensitivities disclosed below apply only to the net notional amount of $5.0 billion.

As mentioned above, the most significant assumption used in the BET model is the estimated price of the securities within the CDO collateral pools. If the actual price of the securities within the collateral pools differs from the price used in estimating the fair value of the super senior credit default swap portfolio, there is potential for material variation in the fair value estimate. Any further declines in the value of the underlying collateral securities held by a CDO will similarly affect the value of the super senior CDO securities given their significantly depressed valuations.

179

Table of Contents

Given the current difficult market conditions, AIG cannot predict reasonably likely changes in the prices of the underlying collateral securities held within a CDO at this time.

The following table presents key inputs used in the BET model, and the potential increase (decrease) to the fair value of the derivative liability by ABS category at September 30, 2009 corresponding to changes in these key inputs:

(dollars in millions)	Average Inputs Used at September 30, 2009	Change	Increase (Decrease) to Fair Value of Derivative Liability: Entire Portfolio	RMBS PRIME	RMBS ALT-A	RMBS Subprime	CMBS	CDOs	Other
Bond prices	37 points	Increase of 5 points	$ (330)	$ (13)	$ (31)	$ (155)	$ (84)	$ (29)	$ (18)
		Decrease of 5 points	295	14	32	118	84	28	19
Weighted average life	4.89 years	Increase of 1 year	107	6	8	94	(4)	1	2
		Decrease of 1 year	(228)	(8)	(11)	(207)	1	2	(5)
Recovery rates	22%	Increase of 10%	(37)	(3)	(3)	(9)	(12)	(3)	(7)
		Decrease of 10%	53	3	5	20	18	3	4
Diversity score[(a)]	17	Increase of 5	(4)						
		Decrease of 5	12						
Discount curve[(b)]	N/A	Increase of 100bps	28						

(a) *The diversity score is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible.*

(b) *The discount curve is an input at the CDO level. A calculation of sensitivity to this input by type of security is not possible. Furthermore, for this input it is not possible to disclose a weighted average input as a discount curve consists of a series of data points.*

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the key inputs will not exceed, perhaps significantly, the ranges assumed by AIG for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these key inputs can be interpolated or extrapolated from the results set forth above.

Corporate Debt

The following table represents the relevant market credit inputs used to estimate the sensitivity for the credit default swap portfolio written on investment-grade corporate debt and the estimated increase (decrease) to fair value of derivative liability at September 30,

2009 corresponding to changes in these market credit inputs:

Input Used at September 30, 2009 *(in millions)*		**Increase (Decrease) To Fair Value of Derivative Liability**
Credit spreads for all names		
Effect of an increase by 10 basis points	$	54
Effect of a decrease by 10 basis points	$	(53)
All base correlations		
Effect of an increase by 1%	$	7
Effect of a decrease by 1%	$	(7)
Assumed recovery rate		
Effect of an increase by 1%	$	(2)
Effect of a decrease by 1%	$	2

During the third quarter of 2009, AIGFP enhanced its valuation methodology for credit default swaps written on portfolios of investment-grade corporate debt. This new methodology uses a mathematical model that produces results that are more 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. Two transactions, representing two percent of the total notional amount of the corporate arbitrage transactions, are valued using third party quotes given their unique attributes.

These results are calculated by stressing a particular assumption independently of changes in any other assumption. No assurance can be given that the actual levels of the indices and maturity will not exceed, perhaps significantly, the ranges assumed by AIGFP for purposes of the above analysis. No assumption should be made that results calculated from the use of other changes in these indices and maturity can be interpolated or extrapolated from the results set forth above.

Other derivatives. Valuation models that incorporate unobservable inputs initially are calibrated to the transaction price. Subsequent valuations are based on observable inputs to the valuation model (e.g., interest rates, credit spreads, volatilities, etc.). Model inputs are changed only when corroborated by observable market data.

Transfers into Level 3

During the three-month period ended September 30, 2009, AIG transferred from Level 2 to Level 3 approximately $3.4 billion of assets, primarily representing downgraded fixed maturity securities for which the observable market prices were not indicative of fair value. See Note 4 to the Consolidated Financial Statements for additional information about transfers into Level 3.

Investments

Investments by Segment

The following tables summarize the composition of AIG's investments by segment:

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
At September 30, 2009						
Fixed maturity securities:						
Bonds available for sale, at fair value	**$ 78,406**	**$ 286,676**	**$ 2,132**	**$ 8,611**	**$ 4,280**	**$ 380,105**
Bond trading securities, at fair value	**-**	**6,854**	**20,255**	**-**	**4,323**	**31,432**
Securities lending invested collateral, at fair value	**-**	**806**	**-**	**-**	**-**	**806**
Equity securities:						
Common and preferred stock available for sale, at fair value	**2,612**	**6,903**	**9**	**723**	**25**	**10,272**
Common and preferred stock trading, at fair value	**46**	**13,961**	**475**	**-**	**-**	**14,482**
Mortgage and other loans receivable, net of allowance	**4**	**26,186**	**603**	**5,191**	**1**	**31,985**
Finance receivables, net of allowance	**-**	**-**	**23,861**	**-**	**-**	**23,861**
Flight equipment primarily under operating leases, net of accumulated depreciation	**-**	**-**	**44,383**	**-**	**-**	**44,383**
Other invested assets	**11,371**	**16,035**	**409**	**11,446**	**3,988**	**43,249**
Securities purchased under agreements to resell, at fair value	**-**	**-**	**2,181**	**-**	**-**	**2,181**
Short-term investments	**10,034**	**34,210**	**6,689**	**2,645**	**1,592**	**55,170**
Total Investments[(a)]	**102,473**	**391,631**	**100,997**	**28,616**	**14,209**	**637,926**
Cash	**458**	**1,154**	**2,714**	**448**	**183**	**4,957**
Total Cash and Investments	**$ 102,931**	**$ 392,785**	**$ 103,711**	**$ 29,064**	**$ 14,392**	**$ 642,883**
At December 31, 2008[(a)]						
Fixed maturity securities:						
Bonds available for sale, at fair value	$ 69,106	$ 262,824	$ 1,971	$ 12,284	$ 16,857	$ 363,042
Bond trading securities, at fair value	-	6,296	26,848	5	4,099	37,248
Securities lending invested collateral, at fair value	790	3,054	-	-	-	3,844
Equity securities:						
Common and preferred stock available for sale, at fair value	2,812	4,988	8	299	701	8,808
Common and preferred stock trading, at fair value	283	11,312	737	1	2	12,335
Mortgage and other loans receivable, net of allowance	5	27,709	367	6,558	48	34,687
Finance receivables, net of allowance	-	5	30,944	-	-	30,949
Flight equipment primarily under operating leases, net of accumulated depreciation	-	-	43,395	-	-	43,395
Other invested assets	11,474	17,184	1,247	14,540	7,533	51,978
Securities purchased under agreements to resell, at fair value	-	-	3,960	-	-	3,960
Short-term investments	9,253	26,554	6,238	2,347	2,274	46,666

Total Investments[(b)]		93,723		359,926		115,715		36,034		31,514		636,912
Cash		549		5,765		1,719		169		440		8,642
Total Cash and Investments	$	94,272	$	365,691	$	117,434	$	36,203	$	31,954	$	645,554

(a) *Revised to reflect the reclassification of noncore businesses from General Insurance to Other. See Note 3 to the Consolidated Financial Statements.*

(b) *At September 30, 2009, approximately 57 percent and 43 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 54 percent and 46 percent, respectively, at December 31, 2008.*

Table of Contents

Investment Strategy

AIG's investment strategies are tailored to the specific business needs of each operating unit. The investment objectives are driven by the business model for each of the businesses: General Insurance, Life Insurance, Retirement Services and Asset Management.

Spread-Based Investment business. The primary objectives are liquidity, preservation of capital, growth of surplus and generation of investment income to support the insurance products. Difficult market conditions in recent quarters have significantly hindered AIG's ability to achieve these objectives, and these challenges are expected to persist for the foreseeable future.

At the local operating unit level, investment strategies are based on considerations that include the local market, liability duration and cash flow characteristics, rating agency and regulatory capital considerations, legal investment limitations, tax optimization and diversification.

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities. In the case of Life Insurance & Retirement Services companies, as well as in the GIC and MIP portfolios of the Asset Management segment, the fundamental investment strategy is to match, as nearly as is practicable, the duration characteristics of the liabilities with comparable duration assets. Fixed maturity securities held by the insurance companies included in Commercial Insurance historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In light of AIG's net operating losses in the third quarter of 2008, AIG changed its intent to hold to maturity certain tax-exempt municipal securities held by its insurance subsidiaries. Fixed maturity securities held by Foreign General Insurance companies consist primarily of intermediate duration high grade securities.

The market price of fixed maturity securities reflects numerous components, including interest rate environment, credit spread, embedded optionality (such as call features), liquidity, structural complexity, foreign exchange risk, and other credit and non-credit factors. However, in most circumstances, pricing is most sensitive to interest rates, such that the market price declines as interest rates rise, and increases as interest rates fall. This effect is more pronounced for longer duration securities.

AIG records at fair value the vast majority of the invested assets held by its insurance companies. However, with limited exceptions (primarily with respect to separate account products consolidated on AIG's balance sheet), AIG does not adjust the fair value of its insurance liabilities for changes in interest rates, even though rising interest rates have the effect of reducing the fair value of such liabilities, and falling interest rates have the opposite effect. This results in the recording of changes in unrealized gains (losses) on securities in Accumulated other comprehensive income resulting from changes in interest rates without any correlative, inverse changes in gains (losses) on AIG's liabilities. Because AIG's asset duration in certain low-yield currencies, particularly Japan and Taiwan, is shorter than its liability duration, AIG views increasing interest rates in these countries as economically advantageous, notwithstanding the effect that higher rates have on the fair value of its fixed maturity portfolio.

At September 30, 2009, approximately 50 percent of the fixed maturity securities were in domestic entities. Approximately 32 percent of such securities were rated AAA by one or more of the principal rating agencies. Approximately 8 percent were below investment grade or not rated. AIG's investment decision process relies primarily on internally generated fundamental analysis and internal risk ratings. Third-party rating services' ratings and opinions provide one source of independent perspectives for consideration in the internal analysis.

A significant portion of the foreign fixed maturity portfolio is rated by Moody's, S&P or similar foreign rating services. Rating services are not available in all overseas locations. AIG's Credit Risk Committee closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At September 30, 2009, approximately 14 percent of the foreign fixed income investments were either rated AAA or, on the basis of AIG's internal analysis, were equivalent from a credit standpoint to securities so rated. Approximately 5 percent were below investment grade or not rated at that date. Approximately one third of the foreign fixed maturity portfolio is sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

Table of Contents

The credit ratings of AIG's fixed maturity investments were as follows:

	September 30, 2009	December 31, 2008
Rating		
AAA	**23%**	27%
AA	**27**	28
A	**28**	26
BBB	**16**	13
Below investment grade	**5**	4
Non-rated	**1**	2
Total	**100%**	100%

The industry categories of AIG's available for sale corporate debt securities were as follows:

Industry Category	September 30, 2009	December 31, 2008
Financial institutions:		
Money Center /Global Bank Groups	**18%**	20%
Regional banks other	**5**	5
Life insurance	**4**	4
Securities firms and other finance companies	**2**	4
Insurance non-life	**3**	5
Regional banks North America	**2**	3
Other financial institutions	**4**	1
Utilities	**14**	13
Communications	**8**	8
Consumer noncyclical	**8**	8
Capital goods	**6**	6
Consumer cyclical	**5**	5
Energy	**5**	5
Other	**16**	13
Total*	**100%**	100%

* *At September 30, 2009 and December 31, 2008, approximately 93 percent and 96 percent, respectively, of these investments were rated investment grade.*

Investments in RMBS, CMBS, CDOs and ABS

The amortized cost, gross unrealized gains (losses) and fair value of AIG's investments in RMBS, CMBS, CDOs and ABS were as follows:

	September 30, 2009	December 31, 2008
(in millions)		

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Bonds available for sale:								
AIG, excluding AIGFP:								
RMBS	**$ 33,117**	**$ 1,124**	**$ (5,799)**	**$ 28,442**	$ 32,092	$ 645	$ (2,985)	$ 29,752
CMBS	**19,131**	**177**	**(6,641)**	**12,667**	14,205	126	(3,105)	11,226
CDO/ABS	**7,610**	**213**	**(1,921)**	**5,902**	6,741	233	(843)	6,131
Subtotal, excluding AIGFP	**59,858**	**1,514**	**(14,361)**	**47,011**	53,038	1,004	(6,933)	47,109
AIGFP	**351**	**50**	**-**	**401**	217	-	-	217
Total	**$ 60,209**	**$ 1,564**	**$ (14,361)**	**$ 47,412**	$ 53,255	$ 1,004	$ (6,933)	$ 47,326

Investments in RMBS

The amortized cost, gross unrealized gains (losses) and estimated fair value of AIG's investments in RMBS securities were as follows:

	September 30, 2009					December 31, 2008				
(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Percent of Total
RMBS:										
U.S. agencies	**$ 13,135**	**$ 814**	**$ (14)**	**$ 13,935**	**49%**	$ 12,793	$ 537	$ (22)	$ 13,308	45%
Prime non-agency[a]	**11,692**	**167**	**(2,403)**	**9,456**	**33**	12,744	41	(1,984)	10,801	36
Alt-A	**5,657**	**52**	**(2,046)**	**3,663**	**13**	4,927	25	(743)	4,209	14
Other housing-related[b]	**931**	**65**	**(519)**	**477**	**2**	410	23	(54)	379	1
Subprime	**1,702**	**26**	**(817)**	**911**	**3**	1,218	19	(182)	1,055	4
Total	**$ 33,117**	**$ 1,124**	**$ (5,799)**	**$ 28,442**	**100%**	$ 32,092	$ 645	$ (2,985)	$ 29,752	100%

(a) *Includes foreign and jumbo RMBS-related securities.*

(b) *Primarily wrapped second-lien.*

AIG's operations, other than AIGFP, held investments in RMBS with an estimated fair value of $28.4 billion at September 30, 2009, or approximately 4 percent of AIG's total invested assets. In addition, AIG's insurance operations held investments with a fair value totaling $5.9 billion in CDOs/ABS, of which $6 million included some level of subprime exposure. AIG's RMBS investments are predominantly in tranches that contain substantial protection features through collateral subordination. At September 30, 2009, approximately 64 percent of these investments were rated AAA, and approximately 6 percent were rated AA by one or more of the principal rating agencies. AIG's investments rated BBB or below totaled $8.5 billion, or approximately 1 percent of AIG's total invested assets at September 30, 2009. As of October 30, 2009, $12.6 billion of AIG's RMBS portfolio had been downgraded as a result of rating agency actions since January 1, 2007, and $163 million of such investments had been upgraded. Of the downgrades, $10.9 billion were AAA rated securities. In addition to the downgrades, as of October 30, 2009, the rating agencies had $301 million of RMBS on watch for downgrade.

Table of Contents

In the nine-month period ended September 30, 2009, AIG collected approximately $3.9 billion of principal payments on RMBS.

The amortized cost of AIG's RMBS investments, other than those of AIGFP, by year of vintage and credit rating were as follows:

At September 30, 2009	**Year of Vintage**						
(in millions)	**Prior**	**2005**	**2006**	**2007**	**2008**	**2009**	**Total**
Rating:							
Total RMBS							
AAA	$ 9,730	$ 2,846	$ 1,682	$ 2,091	$ 3,530	$ 1,166	$ 21,045
AA	1,245	393	195	135	-	-	1,968
A	506	579	177	288	52	-	1,602
BBB and below	614	1,392	3,542	2,885	53	16	8,502
Total RMBS*	$ 12,095	$ 5,210	$ 5,596	$ 5,399	$ 3,635	$ 1,182	$ 33,117
Alt-A RMBS							
AAA	$ 1,098	$ 441	$ 141	$ 234	$ -	$ -	$ 1,914
AA	289	28	28	34	-	-	379
A	36	111	14	150	-	-	311
BBB and below	145	347	1,391	1,170	-	-	3,053
Total Alt-A	$ 1,568	$ 927	$ 1,574	$ 1,588	$ -	$ -	$ 5,657
Subprime RMBS							
AAA	$ 414	$ 160	$ 85	$ 32	$ -	$ -	$ 691
AA	131	97	24	10	-	-	262
A	151	135	21	5	-	-	312
BBB and below	184	145	86	22	-	-	437
Total Subprime	$ 880	$ 537	$ 216	$ 69	$ -	$ -	$ 1,702
Prime non-agency							
AAA	$ 3,783	$ 605	$ 420	$ 443	$ -	$ 27	$ 5,278
AA	792	261	143	91	-	-	1,287
A	260	264	134	134	52	-	844
BBB and below	157	868	1,751	1,439	52	16	4,283
Total prime non-agency	$ 4,992	$ 1,998	$ 2,448	$ 2,107	$ 104	$ 43	$ 11,692

* *The weighted average expected life is 6 years.*

AIG's underwriting practices for investing in RMBS, other asset-backed securities and CDOs take into consideration the quality of the originator, the manager, the servicer, security credit ratings, underlying characteristics of the mortgages, borrower characteristics, and the level of credit enhancement in the transaction. AIG's strategy is typically to invest in securities rated AA or better at the time of the investment.

Investments in CMBS

The amortized cost of AIG's CMBS investments, other than those of AIGFP, was as follows:

	September 30, 2009		December 31, 2008	
(in millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
CMBS (traditional)	**$ 17,020**	**89%**	$ 13,033	92%
ReRemic/CRE CDO	**1,025**	**5**	583	4
Agency	**152**	**1**	159	1
Other	**934**	**5**	430	3
Total	**$ 19,131**	**100%**	$ 14,205	100%

186

The percentage of AIG's CMBS investments, other than those of AIGFP, by credit rating was as follows:

	September 30, 2009	December 31, 2008
Rating:		
AAA	**55%**	84%
AA	**12**	8
A	**10**	6
BBB and below	**23**	2
Total	**100%**	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, by year of vintage was as follows:

	September 30, 2009	December 31, 2008
Year:		
2008	**1%**	1%
2007	**27**	23
2006	**15**	11
2005	**21**	17
2004 and prior	**36**	48
Total	**100%**	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, by geographic region was as follows:

	September 30, 2009	December 31, 2008
Geographic region:		
New York	**15%**	15%
California	**14**	13
Texas	**7**	6
Florida	**6**	6
Virginia	**4**	3
Illinois	**3**	3
New Jersey	**3**	3
Pennsylvania	**2**	3
Maryland	**2**	2
Georgia	**2**	2
All Other	**42**	44
Total	**100%**	100%

The percentage of AIG's CMBS investments, other than those of AIGFP, by industry was as follows:

	September 30, 2009	December 31, 2008

Industry:		
Office	**33%**	33%
Retail	**32**	31
Multi-family	**16**	17
Lodging	**7**	7
Industrial	**7**	7
Other	**5**	5
Total	**100%**	100%

187

Table of Contents

There have been disruptions in the commercial mortgage markets in general, and the CMBS market in particular, with credit default swaps indices and quoted prices of securities at levels consistent with a severe correction in lease rates, occupancy and fair value of properties. In addition, spreads in the primary mortgage market have widened significantly.

Investments in CDOs

The amortized cost of AIG's CDO investments, other than those of AIGFP, by collateral type was as follows:

	September 30, 2009		December 31, 2008	
(in millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
Collateral Type:				
Bank loans (CLO)	**$ 1,981**	**75%**	$ 824	61%
Synthetic investment grade	**266**	**10**	210	16
Other	**379**	**14**	291	22
Subprime ABS	**31**	**1**	12	1
Total	**$ 2,657**	**100%**	$ 1,337	100%

Amortized cost of AIG's CDO investments, other than those of AIGFP, by credit rating was as follows:

	September 30, 2009		December 31, 2008	
(in millions)	Amortized Cost	Percent of Total	Amortized Cost	Percent of Total
Rating:				
AAA	**$ 320**	**12%**	$ 386	29%
AA	**111**	**4**	180	13
A	**1,568**	**59**	574	43
BBB	**257**	**10**	168	13
Below investment grade and equity	**401**	**15**	29	2
Total	**$ 2,657**	**100%**	$ 1,337	100%

Commercial Mortgage Loans

At September 30, 2009, AIG had direct commercial mortgage loan exposure of $15.9 billion, with $14.7 billion representing U.S. loan exposure. At that date, substantially all of the U.S. loans were current. Foreign commercial mortgage loans of $1.2 billion are secured predominantly by properties in Japan. In addition, at September 30, 2009, AIG had $2.0 billion in residential mortgage loans in jurisdictions outside the United States, primarily secured by properties in Taiwan, Malaysia and Thailand. For the nine-month period ended September 30, 2009, AIG recorded a valuation allowance of $475 million on the U.S. commercial mortgage loan portfolio and $99 million in the foreign commercial mortgage loan portfolio.

The U.S. commercial mortgage loan exposure by state and type of loan was as follows:

At September 30, 2009 *(dollars in millions)*	**# of Loans**	**Amount***	**Apartments**	**Offices**	**Retails**	**Industrials**	**Hotels**	**Others**	**% of Total**
State									
California	215	$ 4,124	$ 117	$ 1,813	$ 233	$ 997	$ 424	$ 540	27%
New York	76	1,765	309	1,107	175	40	48	86	11
New Jersey	71	1,320	642	278	272	50	-	78	9
Texas	75	1,047	81	461	128	266	81	30	7
Florida	105	1,030	46	388	240	114	29	213	7
Pennsylvania	68	554	108	135	159	119	18	15	3
Ohio	63	436	209	52	73	48	41	13	3
Maryland	23	403	28	196	170	1	4	4	3
Arizona	18	342	106	55	61	11	9	100	2
Colorado	25	328	18	207	4	12	27	60	2
Other states	430	3,885	317	1,540	778	414	368	468	26
Total	1,169	$ 15,234	$ 1,981	$ 6,232	$ 2,293	$ 2,072	$ 1,049	$ 1,607	100%

*

Excludes portfolio valuation losses.

AIGFP Trading Investments

The fair value of AIGFP's fixed maturity trading investments was as follows:

(in millions)	**September 30, 2009 Fair Value**	**Percent of Total**	**December 31, 2008 Fair Value**	**Percent of Total**
U.S. government and government sponsored entities	**$ 6,157**	**31%**	$ 9,594	37%
Non-U.S. governments	**417**	**2**	500	2
Corporate debt	**2,142**	**11**	3,530	13
State, territories and political subdivisions	**364**	**2**	-	-
Mortgage-backed, asset-backed and collateralized	**10,838**	**54**	12,445	48
Total	**$ 19,918**	**100%**	$ 26,069	100%

The credit ratings of AIGFP's fixed maturity trading investments were as follows:

	September 30, 2009	**December 31, 2008**
Rating:		
AAA	**67%**	74%
AA	**10**	10
A	**14**	11
BBB	**3**	3

Below investment grade	**6**	2
Total	**100%**	100%

189

The fair value of AIGFP's trading investments in RMBS, CDO, ABS and other collateralized securities was as follows:

	September 30, 2009		December 31, 2008	
(in millions)	Fair Value	Percent of Total	Fair Value	Percent of Total
RMBS	**$ 2,964**	**27%**	$ 3,679	30%
CMBS	**1,854**	**17**	2,020	16
CDO/ABS and other collateralized	**6,020**	**56**	6,746	54
Total	**$ 10,838**	**100%**	$ 12,445	100%

Other-Than-Temporary Impairments

Refer to Note 5 to the Consolidated Financial Statements for a discussion of AIG's other-than-temporary impairment accounting policy.

As a result of AIG's periodic evaluation of its securities for other-than-temporary impairments in value, AIG recorded impairment charges in earnings of $1.8 billion and $19.9 billion in the three-month periods ended September 30, 2009 and 2008, respectively, and $6.8 billion and $32.2 billion in the nine-month periods ended September 30, 2009 and 2008, respectively.

Other-than-temporary impairment charges in earnings by segment were as follows:

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
Three Months Ended September 30, 2009						
Impairment Type:						
Severity	**$ 1**	**$ 53**	**$ -**	**$ -**	**$ -**	**$ 54**
Change in intent	**-**	**51**	**-**	**-**	**-**	**51**
Foreign currency declines	**-**	**64**	**-**	**-**	**-**	**64**
Issuer-specific credit events	**132**	**842**	**3**	**499**	**141**	**1,617**
Adverse projected cash flows on structured securities	**-**	**-**	**-**	**-**	**-**	**-**
Total	**$ 133**	**$ 1,010**	**$ 3**	**$ 499**	**$ 141**	**$ 1,786**
Three Months Ended September 30, 2008						
Impairment Type:						
Severity	$ 550	$ 5,530	$ 15	$ 1,133	$ 99	$ 7,327
Change in intent	256	7,462	6	560	15	8,299
Foreign currency declines	-	50	-	-	-	50
Issuer-specific credit events	758	2,222	2	194	277	3,453
Adverse projected cash flows on structured securities	-	650	4	93	-	747
Total	$ 1,564	$ 15,914	$ 27	$ 1,980	$ 391	$ 19,876
Nine Months Ended September 30, 2009						
Impairment Type:						
Severity	**$ 111**	**$ 1,016**	**$ 2**	**$ 667**	**$ 37**	**$ 1,833**
Change in intent	**122**	**817**	**-**	**58**	**18**	**1,015**
Foreign currency declines	**-**	**415**	**-**	**-**	**-**	**415**
Issuer-specific credit events	**432**	**1,739**	**13**	**988**	**173**	**3,345**
Adverse projected cash flows on structured securities	**1**	**90**	**4**	**53**	**-**	**148**
Total	**$ 666**	**$ 4,077**	**$ 19**	**$ 1,766**	**$ 228**	**$ 6,756**
Nine Months Ended September 30, 2008						
Impairment Type:						
Severity	$ 1,246	$ 12,060	$ 42	$ 2,778	$ 149	$ 16,275
Change in intent	276	8,390	8	630	16	9,320
Foreign currency declines	-	1,084	-	-	-	1,084
Issuer-specific credit events	825	2,610	2	232	277	3,946
Adverse projected cash flows on structured securities	7	1,355	4	255	-	1,621
Total	$ 2,354	$ 25,499	$ 56	$ 3,895	$ 442	$ 32,246

Table of Contents

Other-than-temporary impairment charges in earnings by type of security and type of impairment were as follows:

(in millions)		RMBS		CDO/ABS		CMBS		Other Fixed Income		Equities/Other Invested Assets*		Total
Three Months Ended September 30, 2009												
Impairment Type:												
Severity	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**54**	**$**	**54**
Change in intent		**-**		**-**		**18**		**28**		**5**		**51**
Foreign currency declines		**-**		**-**		**-**		**64**		**-**		**64**
Issuer-specific credit events		**502**		**227**		**246**		**45**		**597**		**1,617**
Adverse projected cash flows on structured securities		**-**		**-**		**-**		**-**		**-**		**-**
Total	**$**	**502**	**$**	**227**	**$**	**264**	**$**	**137**	**$**	**656**	**$**	**1,786**
Three Months Ended September 30, 2008												
Impairment Type:												
Severity	$	2,489	$	60	$	-	$	98	$	4,680	$	7,327
Change in intent		1,609		73		303		382		5,932		8,299
Foreign currency declines		-		-		-		-		50		50
Issuer-specific credit events		361		-		-		626		2,466		3,453
Adverse projected cash flows on structured securities		739		1		7		-		-		747
Total	$	5,198	$	134	$	310	$	1,106	$	13,128	$	19,876
Nine Months Ended September 30, 2009												
Impairment Type:												
Severity	**$**	**844**	**$**	**481**	**$**	**55**	**$**	**113**	**$**	**340**	**$**	**1,833**
Change in intent		**-**		**4**		**24**		**764**		**223**		**1,015**
Foreign currency declines		**-**		**15**		**17**		**381**		**2**		**415**
Issuer-specific credit events		**1,519**		**289**		**384**		**211**		**942**		**3,345**
Adverse projected cash flows on structured securities		**104**		**36**		**8**		**-**		**-**		**148**
Total	**$**	**2,467**	**$**	**825**	**$**	**488**	**$**	**1,469**	**$**	**1,507**	**$**	**6,756**
Nine Months Ended September 30, 2008												
Impairment Type:												
Severity	$	9,739	$	218	$	904	$	151	$	5,263	$	16,275
Change in intent		1,608		104		342		1,334		5,932		9,320
Foreign currency declines		-		64		-		639		381		1,084
Issuer-specific credit events		594		2		-		784		2,566		3,946
Adverse projected cash flows on structured securities		1,572		43		6		-		-		1,621
Total	$	13,513	$	431	$	1,252	$	2,908	$	14,142	$	32,246

*

Includes other-than-temporary impairment charges on partnership investments and direct private equity investments.

AIG has recognized other-than-temporary impairment charges (severity losses) of $54 million and $7.3 billion in the three-month periods ended September 30, 2009 and 2008, respectively, and $1.8 billion and $16.3 billion in the nine-month periods ended September 30, 2009 and 2008, respectively. With the adoption of the new other-than-temporary impairments accounting standard on April 1, 2009, such charges in the three months ended September 30, 2009, exclusively related to equity securities and partnership investments. In all prior periods, such charges primarily related to mortgage-backed, asset-backed and collateralized securities, corporate debt securities of financial institutions and other equity securities. Notwithstanding AIG's intent and ability to hold such securities until they had recovered their cost or amortized cost basis, and despite structures that indicated, at the time, that a substantial amount of the securities should have continued to perform in accordance with original terms, AIG concluded, at the time, that it could not reasonably assert that the impairment would be temporary.

Pricing of CMBS had been adversely affected by concerns that underlying mortgage defaults will increase. As a result, AIG recognized $55 million of other-than-temporary impairment severity charges in the nine-month period ended September 30, 2009, all in the first quarter prior to adopting the new other-than-temporary impairments accounting standard, on CMBS valued at a severe discount to cost, despite the absence of any meaningful deterioration in performance of the underlying credits, because AIG concluded that it could not reasonably assert that the impairment period was temporary.

In addition to the above severity losses, AIG recorded other-than-temporary impairment charges in the three- and nine-month periods ended September 30, 2009 and 2008 related to:

- securities for which AIG has changed its intent to hold or sell;
- declines due to foreign exchange rates;
- issuer-specific credit events;
- certain structured securities; and
- other impairments, including equity securities, partnership investments and private equity investments.

AIG recognized $1.6 billion and $3.3 billion in other-than-temporary impairment charges in the three- and nine-month periods ended September 30, 2009, respectively, due to issuer-specific credit events, and $51 million and $1.0 billion in other-than-temporary impairment charges in the three- and nine-month periods ended September 30, 2009, respectively, due to changes in intent.

No other-than-temporary impairment charge with respect to any one single credit was significant to AIG's consolidated financial condition or results of operations, and no individual other-than-temporary impairment charge exceeded 0.2 percent of Total equity in the nine-month period ended September 30, 2009.

In periods subsequent to the recognition of an other-than-temporary impairment charge for available for sale fixed maturity securities that is not foreign exchange related, AIG generally prospectively accretes into earnings the difference between the new amortized cost and the expected undiscounted recovery value over the remaining expected holding period of the security. The amount of accretion recognized in earnings for the three- and nine-month periods ended September 30, 2009 were $54 million and $519 million, respectively. For a discussion of recent accounting standards affecting fair values and other-than-temporary impairments, see Outlook Life Insurance & Retirement Services; and Notes 1 and 5 to the Consolidated Financial Statements.

An aging of the pre-tax unrealized losses of fixed maturity and equity securities, distributed as a percentage of cost relative to unrealized loss (the extent by which the fair value is less than amortized cost or cost), including the number of respective items was as follows:

At September 30, 2009	Less than or equal to 20% of Cost[b]			Greater than 20% to 50% of Cost[b]			Greater than 50% of Cost[b]			Total		
Aging[a] *(dollars in millions)*	**Cost[c]**	**Unrealized Loss**	**Items**	**Cost[c]**	**Unrealized Loss**	**Items**	**Cost[c]**	**Unrealized Loss**	**Items**	**Cost[c]**	**Unrealized Loss[d]**	**Items**
Investment grade bonds												
0-6 months	$ 20,405	$ 865	1,979	$ 6,304	$ 2,192	602	$ 3,705	$ 2,432	447	$ 30,414	$ 5,489	3,028
7-12 months	13,036	1,035	1,494	2,300	775	224	3,002	2,133	308	18,338	3,943	2,026
> 12 months	43,120	3,112	5,029	9,372	2,662	1,137	1,573	969	140	54,065	6,743	6,306
Total	$ 76,561	$ 5,012	8,502	$ 17,976	$ 5,629	1,963	$ 8,280	$ 5,534	895	$ 102,817	$ 16,175	11,360
Below investment grade bonds												
0-6 months	$ 2,420	$ 202	683	$ 3,228	$ 1,004	291	$ 1,583	$ 1,121	178	$ 7,231	$ 2,327	1,152
7-12 months	732	80	93	998	352	99	1,298	971	187	3,028	1,403	379
> 12 months	2,503	224	380	1,523	436	131	305	203	43	4,331	863	554
Total	$ 5,655	$ 506	1,156	$ 5,749	$ 1,792	521	$ 3,186	$ 2,295	408	$ 14,590	$ 4,593	2,085
Total bonds												
0-6 months	$ 22,825	$ 1,067	2,662	$ 9,532	$ 3,196	893	$ 5,288	$ 3,553	625	$ 37,645	$ 7,816	4,180
7-12 months	13,768	1,115	1,587	3,298	1,127	323	4,300	3,104	495	21,366	5,346	2,405
> 12 months	45,623	3,336	5,409	10,895	3,098	1,268	1,878	1,172	183	58,396	7,606	6,860
Total[e]	$ 82,216	$ 5,518	9,658	$ 23,725	$ 7,421	2,484	$ 11,466	$ 7,829	1,303	$ 117,407	$ 20,768	13,445
Equity securities												
0-6 months	$ 1,060	$ 52	42,922	$ 33	$ 8	38,302	$ 4	$ 4	12	$ 1,097	$ 64	81,236
7-12 months	422	36	210	153	37	57	-	-	4	575	73	271
> 12 months	-	-	-	-	-	-	-	-	-	-	-	-
Total	$ 1,482	$ 88	43,132	$ 186	$ 45	38,359	$ 4	$ 4	16	$ 1,672	$ 137	81,507

(a) *Represents the number of consecutive months that fair value has been less than cost by any amount.*

(b) *Represents the percentage by which fair value is less than cost at the balance sheet date.*

(c) *For bonds, represents amortized cost.*

(d) *The effect on net income of unrealized losses after taxes will be mitigated upon realization because certain realized losses will be charged to participating policyholder accounts, or realization will result in current decreases in the amortization of certain DAC.*

(e)
Includes securities lending invested collateral.

For the nine months ended September 30, 2009, net unrealized gains related to fixed maturity and equity securities increased $13.3 billion ($8.6 billion after tax) reflecting an increase in fair value primarily due to the narrowing of credit spreads, partially offset by the reversal of prior other-than-temporary impairment charges in connection with the adoption of a new accounting standard which changed the recognition criteria for other-than-temporary impairment charges.

See also Note 5 to the Consolidated Financial Statements.

Risk Management

For a complete discussion of AIG's risk management program, see Risk Management in the 2008 Form 10-K.

Overview

AIG continues to reassess its risk management control environment and its enterprise risk management functions, both in its individual businesses as well as at the corporate level, in light of AIG's current situation. AIG continues to focus on enhancing its risk management processes and de-risking certain exposures, both at the corporate and business levels in an effort to minimize the capital and liquidity needs of AIG's local legal entities. Continued market turmoil and associated price volatility, limited liquidity in the markets and a limitation in the number of counterparties willing to transact with AIG continue to constrain AIG's ability to utilize techniques for mitigating its exposure to credit, market and liquidity risks.

Credit Risk Management

AIG defines its aggregate credit exposures to a counterparty as the sum of its fixed maturities, loans, finance leases, reinsurance recoverables, derivatives, deposits and letters of credit (both in the case of financial institutions) and the specified credit equivalent exposure to certain insurance products which embody credit risk.

The following table presents AIG's largest credit exposures as a percentage of Total equity:

At September 30, 2009 **Category**	**Risk Rating**[(a)]	**Credit Exposure as a Percentage of Total Equity**
Investment Grade:		
10 largest combined	A-*(b)*	132.3%[(c)]
Single largest non-sovereign (financial institution)	BBB-	12.3
Single largest corporate	AA	4.6
Single largest sovereign	AAA	28.3
Non-Investment Grade:		
Single largest sovereign	BB-	2.4
Single largest non-sovereign	BB	0.8

(a) *Reflects AIG's internal risk ratings.*

(b) *Three of the ten largest credit exposures are to financial institutions, five are to investment-grade rated sovereigns and two are to government-sponsored entities. None of the top ten is rated lower than BBB- or its equivalent.*

(c) *Exposure to the ten largest combined as a percentage of Total equity was 150.7 percent at December 31, 2008.*

AIG monitors its aggregate cross-border exposures by country and regional group of countries. AIG defines its cross-border exposure to include both cross-border credit exposures and its cross-border investments in its own international subsidiaries. Seven countries had cross-border exposures in excess of 20 percent of Total equity at September 30, 2009. Based on AIG's internal risk ratings, at that date, five were rated AAA, one was rated AA and one was rated A.

In addition, AIG reviews and manages its industry concentrations. AIG's single largest industry credit exposure is to the global financial institutions sector, which includes banks and finance companies, securities firms, insurance and reinsurance companies, and government-sponsored entities.

The following table presents AIG's largest credit exposures to the global financial institution sector as a percentage of Total equity:

At September 30, 2009	**Credit Exposure as a Percentage of Total Equity**

Industry Category:	
Money Center / Global Bank Groups	112.2%*
Government-Sponsored Entities	25.9
Global Life Insurance Companies	18.5
European Regional Financial Institutions	17.5
Global Reinsurance Companies	15.3
Asian Regional Financial Institutions	11.2
North American Based Regional Financial Institutions	10.4

*

Exposure to Money Center/Global Bank Groups as a percentage of Total equity was 138.7 percent at December 31, 2008.

195

AIG's exposure to its five largest money center/global bank group institutions was 45.1 percent of Total equity at September 30, 2009.

Credit exposure to Global Reinsurance Companies was 15.3 percent of Total equity compared to 18.4 percent at December 31, 2008. Credit exposure to Transatlantic, previously a consolidated subsidiary, was added to this category. Transatlantic is now AIG's largest third-party reinsurer with overall credit exposure of just over $2 billion. Transatlantic's core operating subsidiaries have financial strength ratings of A1 by Moody's and A+ by S&P.

AIG also has a risk concentration through the investment portfolios of its insurance companies in the U.S. municipal sector. AIG holds approximately $48.4 billion of tax-exempt and taxable securities issued by a wide number of municipal authorities across the U.S. and its territories. A majority of these securities are held in available-for-sale portfolios of AIG's domestic property-casualty insurance companies. These securities are comprised of the general obligations of states and local governments, revenue bonds issued by these same governments and bonds issued by transportation authorities, universities, state housing finance agencies and hospital systems. The average credit quality of these issuers is AA-.

Currently, several states, local governments and other issuers are facing pressures on their budget revenues from the effects of the recession and have had to cut spending and draw on reserve funds. Consequently, several municipal issuers in AIG's portfolios have been downgraded one or more notches by the rating agencies. The most notable of these issuers is the State of California, of which AIG holds approximately $1.1 billion of general obligation bonds and which at September 30, 2009 was also the largest single issuer in AIG's municipal finance portfolio. Nevertheless, despite the budget pressures facing the sector, AIG does not expect any significant defaults in portfolio holdings of municipal issuers.

Insurance Risk Management

Catastrophe Exposures

The nature of AIG's business exposes it to various catastrophic events in which multiple losses across multiple lines of business can occur in any calendar year. In order to control this exposure, AIG uses a combination of techniques, including setting aggregate limits in key business units, monitoring and modeling accumulated exposures, and purchasing catastrophe reinsurance to supplement its other reinsurance protections.

Natural disasters, such as hurricanes, earthquakes and other catastrophes have the potential to adversely affect AIG's operating results. Other risks, such as a pandemic disease, like the Swine Flu Influenza A Virus (H1N1), could adversely affect AIG's business and operating results to an extent that may be only partially offset by reinsurance programs.

Pandemic Influenza

On June 11, 2009, the World Health Organization (WHO) raised its alert level to 6 and declared that the new variant influenza A/H1N1 had reached pandemic alert status. Although AIG continues to monitor the developing facts, current evidence suggests that a resulting pandemic will be of moderate severity with some chance that it could be severe. To date, the virus has been mostly mild. The virus is occurring disproportionately in younger people and there is some evidence that individuals over 60 may have some resistance to the virus due to pre-existing immunity. Individuals infected generally recover fully after a few days and hospitalization rates have been low. However, it should be noted that instances have been identified in which the H1N1 virus demonstrated a resistance to Tamiflu, the preferred treatment for the virus. The emergence of this resistant virus, or the emergence of a more virulent virus during the on-coming Northern Hemisphere flu season could result in a more severe pandemic.

A significant global pandemic could have a material adverse effect on Life Insurance & Retirement Services operating results and liquidity from increased mortality and morbidity rates.

Utilizing a scenario-based approach and an industry standard model, AIG has analyzed its insurance risk associated with pandemic influenza. For a severe event, considered to be a recurrence of the 1918 Flu Pandemic, the analysis indicates AIG could incur a pre-tax loss of approximately $6.3 billion if this event were to recur. For a mild event, considered to be a recurrence of the influenza epidemic of 1968, the analysis indicates AIG could incur a pre-tax loss of approximately $0.6 billion if such an event were to recur. These analyses were based on 2008 policy data representing approximately 95 percent of AIG's individual life, group life and credit life books of business, net of reinsurance at that point in time. These estimates do not include claims that could be made under other policies, such as business interruption or general liability policies, and does not reflect estimates for losses resulting from disruption of AIG's own business operations or asset valuation losses that may arise consequent to such a pandemic. These related losses may be significant and in some scenarios exceed the losses incurred from AIG's life insurance coverages.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Included in Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 4. Controls and Procedures

In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was carried out by AIG's management, with the participation of AIG's Chief Executive Officer and Chief Financial Officer, of the effectiveness of AIG's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures. Based on that evaluation, AIG's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2009, AIG's disclosure controls and procedures were effective. There has been no change in AIG's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, AIG's internal control over financial reporting.

Part II OTHER INFORMATION

ITEM 1. Legal Proceedings

Included in Note 10(a) to the Consolidated Financial Statements.

ITEM 1A. Risk Factors

The following supplements the risk factors set forth in Item 1A. Risk Factors of Part I of the 2008 Form 10-K and in Item 1A. Risk Factors of Part II of AIG's Quarterly Reports on Form 10-Q for the quarters ended June 30, 2009 and March 31, 2009.

A deterioration in the credit markets may cause AIG to recognize unrealized market valuation losses in AIGFP's regulatory capital super senior credit default swap portfolio in future periods which could have a material adverse effect on AIG's consolidated financial condition or consolidated results of operations. Moreover, depending on how the extension of the Basel I capital floors is implemented, the period of time that AIGFP remains at risk for such deterioration could be significantly longer than anticipated by AIGFP.

A total of $171.7 billion in net notional amount of the super senior credit default swap CDS portfolio of AIGFP as of September 30, 2009, represented derivatives written for financial institutions, principally in Europe, for the purpose of providing regulatory capital relief rather than for arbitrage purposes. The fair value of the derivative liability for these CDS transactions was $31million at September 30, 2009.

The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of Basel I that existed through the end of 2007 and which is in the process of being replaced by Basel II. It is expected that financial institution counterparties will have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they will receive little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances, and therefore AIGFP expects that the counterparties will terminate the majority of these transactions within the next six months. However, the Basel Committee recently announced that it has agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame.

The nature of the information provided or otherwise available to AIGFP regarding the performance and credit quality of the underlying assets in each regulatory capital CDS transaction is not consistent across all transactions. Furthermore, in a majority of corporate loan transactions and all of the residential mortgage transactions, the pools are blind, meaning that the identities of obligors are not disclosed to AIGFP. In addition, although AIGFP receives periodic reports on the underlying asset pools, virtually all of the regulatory capital CDS transactions contain confidentiality restrictions that preclude AIGFP's public disclosure of information relating to the underlying referenced assets. AIGFP analyzes the information regarding the performance and credit quality of the underlying pools of assets required to make its own risk assessment and to determine any changes in credit quality with respect to such pools of assets. While much of this information received by AIGFP cannot be aggregated in a comparable way for disclosure purposes because of the confidentiality restrictions and the inconsistency of the information, it does provide a sufficient basis for AIGFP to evaluate the risks of the portfolio and to determine a reasonable estimate of fair value.

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 capital relief. Further, AIGFP expects that counterparties will terminate these transactions prior to their maturity. AIGFP will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Given the potential for further significant deterioration in the credit markets, there can be no assurance that AIG will not recognize unrealized market valuation losses from this portfolio in future periods. Depending on how the extension of the Basel I capital floors is implemented, AIG could also remain at risk for a significantly longer period of time than anticipated. Moreover, given the size of the credit exposure, a decline in the fair value of this portfolio could have a material adverse effect on AIG's consolidated results of operations or consolidated financial condition.

The limitations on incentive compensation contained in the American Recovery and Reinvestment Act of 2009, and the restrictions placed on compensation by the Special Master for TARP Executive Compensation, may adversely affect AIG's ability to retain and motivate its highest performing employees. On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) was signed into law. The Recovery Act contains restrictions on bonus and other incentive compensation payable to the five executives named in a company's proxy statement and the next twenty highest paid employees of companies receiving TARP funds. Pursuant to the Recovery Act, the Office of the Special Master for TARP Executive Compensation (Special Master) issued an initial Determination Memorandum on October 22, 2009 with respect to AIG's named executive officers (except for the Chief Executive Officer) and twenty highest paid employees. Although the Determination Memorandum is not yet final, it appears likely to set significant new restrictions on the compensation of these employees. Historically, AIG has embraced a pay-for-performance philosophy. Depending upon the limitations placed on incentive compensation by the final Determination Memorandum issued by the Special Master, it is possible that AIG may be unable to create a compensation structure that permits AIG to retain and motivate its highest performing employees. The Special Master is also reviewing AIG's compensation arrangements for its next 75 most highly compensated employees. Depending on the actions of the Special Master, AIG's ability to retain and motivate these employees may be adversely affected as well. An inability of AIG to retain and motivate its highest performing employees may affect its ability to stabilize its businesses, execute on its asset disposition plan and prepare and make required filings with the Securities and Exchange Commission and other federal, state and foreign regulators.

ITEM 6. Exhibits

See accompanying Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN INTERNATIONAL GROUP, INC.
(Registrant)

/s/ DAVID L. HERZOG

David L. Herzog
Executive Vice President
Chief Financial Officer
Principal Financial Officer

/s/ JOSEPH D. COOK

Joseph D. Cook
Vice President
Controller
Principal Accounting Officer

Dated: November 6, 2009

EXHIBIT INDEX

Exhibit Number	Description	Location
3.1	Amended and Restated Certificate of Incorporation of American International Group, Inc.	Incorporated by reference to Exhibit 3(i)(a) to AIG's Registration Statement on Form S-3 filed with the SEC on July 17, 2009 (File No. 333-160645).
3.2	American International Group, Inc. By-laws, as amended on August 10, 2009	Incorporated by reference to Exhibit 3(ii) to AIG's Current Report on Form 8-K filed with the SEC on August 14, 2009 (File No. 1-8787).
10.1	Letter Agreement, dated August 16, 2009, between American International Group, Inc. and Robert H. Benmosche	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on August 17, 2009 (File No. 1-8787).
10.2	Agreement for Binding Arbitration, dated as of August 31, 2009, between American International Group, Inc. and Maurice R. Greenberg and Howard I. Smith	Incorporated by reference to Exhibit 10.1 to AIG's Current Report on Form 8-K filed with the SEC on August 31, 2009 (File No. 1-8787).
11	Statement re computation of per share earnings	Included in Note 8 to the Consolidated Financial Statements.
12	Computation of ratios of earnings to fixed charges	Filed herewith.
31	Rule 13a-14(a)/15d-14(a) Certifications	Filed herewith.
32	Section 1350 Certifications	Filed herewith.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheet as of September 30, 2009 and December 31, 2008, (ii) the Consolidated Statement of Income (Loss) for the three and nine months ended September 30, 2009 and September 30, 2008, (iii) the Consolidated Statement of Equity for the nine months ended September 30, 2009, (iv) the Consolidated Statement of Cash Flows for the nine months ended September 30, 2009 and September 30, 2008, (v) the Consolidated Statement of Comprehensive Income (Loss) for the three and nine months ended September 30, 2009 and September 30, 2008 and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text.*	Filed herewith.

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.