AMERICAN INTERNATIONAL GROUP INC
Form 10-K
February 23, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011 **Commission file number 1-8787**

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the voting and nonvoting common equity held by nonaffiliates of the registrant (based on the closing price of the registrant's most recently completed second fiscal quarter) was approximately $12,986,000,000.

As of January 31, 2012, there were outstanding 1,896,865,688 shares of Common Stock, $2.50 par value per share, of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Document of the Registrant	Form 10-K Reference Locations
Portions of the registrant's definitive proxy statement for the 2012 Annual Meeting of Shareholders	Part III, Items 10, 11, 12, 13 and 14

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American International Group, Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2011

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Part I

ITEM 1. BUSINESS

American International Group, Inc. (AIG) is a leading international insurance organization serving customers in more than 130 countries. AIG companies serve commercial, institutional and individual customers through one of the most extensive worldwide property-casualty networks of any insurer. In addition, AIG companies are leading providers of life insurance and retirement services in the United States. AIG Common Stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange and the Tokyo Stock Exchange.

Throughout this Annual Report on Form 10-K, the terms AIG, the Company, we, us and our are used to collectively refer to AIG, a Delaware corporation, and its consolidated subsidiaries, unless the context otherwise requires. The term AIG Parent refers solely to American International Group, Inc., a Delaware corporation, and not to any of its consolidated subsidiaries.

In September 2008, liquidity issues resulted in AIG seeking and receiving governmental support through a credit facility from the Federal Reserve Bank of New York (the FRBNY, and such credit facility, the FRBNY Credit Facility) and funding from the United States Department of the Treasury (Department of the Treasury) through the Troubled Asset Relief Program (TARP).

On January 14, 2011, AIG was recapitalized (the Recapitalization) and the FRBNY Credit Facility was repaid and terminated through a series of transactions that resulted in the Department of the Treasury becoming AIG's majority shareholder with ownership of approximately 92 percent of outstanding AIG Common Stock at that time. AIG understands that, subject to market conditions, the Department of the Treasury intends to dispose of its ownership interest over time, and AIG has granted certain registration rights to the Department of the Treasury to facilitate such sales.

On May 27, 2011, AIG and the Department of the Treasury, as the selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately $2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of the shares of AIG Common Stock by the Department of the Treasury. As a result of the sale of AIG Common Stock in this offering, the Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock) was cancelled and the ownership of the outstanding AIG Common Stock by the Department of the Treasury was reduced from approximately 92 percent to approximately 77 percent after the completion of the offering.

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Capital Resources and Liquidity and Notes 1 and 17 to the Consolidated Financial Statements for further discussion of the governmental support provided to AIG and the Recapitalization.

In order to align financial reporting with the manner in which AIG's chief operating decision makers review the businesses to allocate resources and assess performance, changes were made during 2011 to AIG's segment information. See Note 3 to the Consolidated Financial Statements for additional information. AIG now reports its results of operations as follows:

Chartis Chartis offers a breadth of insurance products and services to businesses and individuals worldwide. Commercial insurance products are primarily distributed to businesses through insurance brokers. Major lines of business include casualty, property, financial lines and specialty (including aerospace, environmental, marine, trade credit and political risk coverages, and various product offerings to small and medium enterprises (SME)). Consumer insurance products are primarily distributed to individual consumers or groups of consumers through individual agents, brokers, and on a direct-to-consumer basis. Consumer lines of business include accident & health (A&H), personal lines, and life insurance.

Chartis conducts its business primarily through the following legal entities:

National Union Fire Insurance Company of Pittsburgh, Pa.

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- New Hampshire Insurance Company
- American Home Assurance Company
- Lexington Insurance Company
- AIU Insurance Company
- Chartis Overseas, Ltd.
- Fuji Fire & Marine Insurance Company Limited (Fuji)
- Chartis Europe Holdings Limited
- Chartis Europe, S.A.

SunAmerica Financial Group (SunAmerica) SunAmerica offers a comprehensive suite of products and services to individuals and groups, including term life, universal life, A&H, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms.

SunAmerica conducts its business primarily through the following business units:

- American General Life Companies (American General)
- Variable Annuity Life Insurance Company (VALIC)
- Western National Life Insurance Company (Western National)
- SunAmerica Retirement Markets (SARM)
- Brokerage Services and Retail Mutual Funds

SunAmerica also includes the operations of SunAmerica Affordable Housing Partners, runoff Guaranteed Investment Contracts (GIC) and certain individual annuity portfolios.

Aircraft Leasing AIG's commercial aircraft leasing business is conducted through International Lease Finance Corporation (ILFC) (and, since the date of its acquisition by ILFC, AeroTurbine, Inc. (AeroTurbine)). Aircraft Leasing was previously reported as a component of the Financial Services reportable segment.

Other Operations AIG's Other operations include results from Mortgage Guaranty operations (conducted through United Guaranty Corporation (UGC)), Global Capital Markets operations (consisting of the operations of AIG Markets, Inc. (AIG Markets) and the remaining derivatives portfolio of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP)), Direct Investment book (including the Matched Investment Program (MIP)), Retained Interests (as defined below), Corporate & Other operations (after allocations to AIG's business segments) and those divested businesses that did not qualify for discontinued operations accounting treatment.

Prior periods have been revised to conform to the current period presentation for the segment changes.

For financial information concerning AIG's reportable segments, including geographic areas of operation, and changes made in 2011, see Note 3 to the Consolidated Financial Statements.

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The following charts present the sources of AIG's revenues (in millions) for the year ended December 31, 2011:

Additional information about AIG's operations follows:

CHARTIS OPERATIONS

Chartis is a leading property-casualty and general insurance organization with over 44,000 employees serving more than 70 million clients around the world. Chartis is diversified in terms of its customers, products, geography and distribution. Its combination of global reach and scale, extensive range of products and services, diversified, multi-channel distribution network and strong capital, positions it to meet the demands of a broad range of customers.

In 2011, Chartis completed a reorganization of its operations, which streamlined Chartis' operating structure, improving its ability and flexibility to allocate capital efficiently across businesses and regions. Chartis presents its financial information in two operating segments Commercial Insurance and Consumer Insurance as well as a Chartis Other operations category. Previously, Chartis was organized and presented its financial information under Chartis U.S. and Chartis International. For the year ended December 31, 2011, Commercial Insurance and Consumer Insurance represented approximately 62 percent and 38 percent, respectively, of Chartis total net premiums written. See Item 7. MD&A Results of Operations Segment Results Chartis Operations Chartis Results for Chartis net premiums written by major line of business.

COMMERCIAL INSURANCE

Commercial Insurance provides sophisticated risk management products and services to a breadth of businesses and organizations from multinational corporations and mid-sized companies to small businesses and non-profit organizations. Chartis' product portfolio includes both traditional insurance coverage such as general liability and commercial property, as well as highly specialized insurance for network security, aerospace, environmental liabilities, crisis management and financial lines. Chartis also offers specialized underwriting for particular market segments and risks, such as the energy, construction, real estate and healthcare sectors.

Commercial product lines include:

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

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

Specialty: Includes environmental, political risk, trade credit, surety, marine, and aerospace insurance, and various product offerings for SMEs.

Financial Lines: Includes various forms of professional liability insurance, including directors and officers (D&O), fidelity, employment practices, fiduciary liability, network security, kidnap and ransom, and errors and omissions liability insurance that protect individual insureds and corporate entities.

CONSUMER INSURANCE

Consumer Insurance provides personal insurance solutions for individuals and families, including A&H, specialty coverages for high net-worth individuals, and homeowner and automobile insurance.

Consumer product lines:

Accident & Health: Includes voluntary and sponsor-paid personal accidental and supplemental health products, including accidental death and disability, accidental medical reimbursement, hospital indemnity and medical excess for individuals, employees, associations and other organizations. It also includes a broad range of travel insurance products and services for leisure and business travelers, including trip cancellation, trip interruption, lost baggage, travel assistance and concierge services.

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

Life Insurance: Includes life products offered primarily through Fuji Life Insurance Company Ltd.

CHARTIS OTHER

Chartis Other consists primarily of certain run-off lines of business, including excess workers' compensation and asbestos, certain Chartis expenses relating to global corporate initiatives, expense allocations from AIG Parent, net investment income allocations not attributable to Commercial Insurance or Consumer Insurance segments, realized capital gains and losses (including foreign currency transactions), the 2010 bargain purchase gain relating to the purchase of Fuji and gains relating to the sale of properties.

CHARTIS BUSINESS STRATEGY

Chartis seeks to provide value for people and businesses worldwide through the identification and efficient management of risk. In pursuing this mission and in growing its intrinsic value, Chartis has established strategic initiatives in four key areas:

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

Loss Ratio Improvement: Reduce loss costs and improve the efficiency and servicing of customer claims through improved claims practices and enhanced technology.

Expense Discipline: Improve efficiency, reducing recurring operating expenses by leveraging its global footprint and expanded use of shared services.

Risk Selection: Continue to enhance pricing and risk-selection tools through better data mining, science and technology investments.

Initiatives in these areas are helping Chartis to direct its capital and resources to optimize financial results, while acknowledging that performance in these areas may vary from quarter to quarter depending upon local market conditions, such as pricing and the effects of foreign exchange rates or changes in the investment environment. Chartis continues to further grow its higher value and less capital intensive lines of business and to

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implement corrective actions on underperforming businesses. Management continues to review its underlying businesses to ensure that they meet overall performance measures. Chartis will also continue to implement cost savings initiatives.

CHARTIS REGIONS

Chartis maintains a significant international presence in both developed markets and growth economy nations (primarily in Asia Pacific, the Middle East and Latin America). Based on net premiums written in 2010, Chartis is the largest U.S. commercial insurer and the largest U.S.-based insurer in Europe, Japan and China. In addition, Chartis was first to market in many developing nations and is well positioned to enhance its businesses in countries such as China, India and Brazil.

The following chart presents Chartis Net premiums written (in millions) by region:

In 2011, 6 percent and 5 percent of Chartis direct premiums written (gross premiums less return premiums and cancellations, excluding reinsurance assumed and before deducting reinsurance ceded) were in the states of California and New York, respectively, and 18 percent and 7 percent in Japan and the United Kingdom, respectively. No other state or foreign jurisdiction accounted for more than five percent of such premiums.

In January 2012, Chartis further aligned its regions into the following geographic areas:

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

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

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

CHARTIS DISTRIBUTION CHANNELS

Chartis distributes its products and services through a variety of distribution channels. Commercial Insurance is generally distributed through global, regional and local brokers, agents and wholesalers. Consumer Insurance is generally distributed through insurance brokers, agents, direct to the consumer, and affinity groups. Direct to consumer is a growing distribution channel for Chartis in many locations outside of the United States.

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CHARTIS CUSTOMERS

Chartis serves over 70 million business and individual customers on a global basis from the largest multinational corporations to local businesses and individuals. Chartis is dedicated to creating a platform that is easy and convenient for customers to access. Chartis' clients benefit from its substantial underwriting expertise and long-term commitment to the markets and clients it serves, as well as its tradition of product innovation. In 2011, Chartis introduced more than 170 products and services worldwide.

CHARTIS CAPITAL DEPLOYMENT

Chartis' scale and geographical diversification also allow the business to strategically deploy capital to pursue attractive long-term opportunities around the world. Chartis regularly reviews and adjusts its business mix with the goals of aligning risk profile with risk tolerance and meeting its capital management objectives. See Item 7. MD&A Capital Resources and Liquidity Overview Liquidity of Parent and Subsidiaries Chartis for a discussion of Chartis' capital maintenance agreements (CMAs).

Consistent with AIG's worldwide insurance investment policy, Chartis places primary emphasis on investments in fixed maturity securities issued by corporations, municipalities and other government agencies, and to a lesser extent, common stocks, private equity, hedge funds and other alternative investments.

SUNAMERICA OPERATIONS

SunAmerica offers a comprehensive suite of products and services to individuals and groups including term life, universal life, A&H, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms.

SunAmerica presents its business in two operating segments: *Domestic Life*, which focuses on mortality-and morbidity-based protection products, and *Domestic Retirement Services*, which focuses on investment, retirement savings and income solution products.

SUNAMERICA BUSINESS STRATEGY

SunAmerica's strategy is to increase sales of its products and services in a disciplined manner that drives consistent, profitable earnings growth and efficient use of capital. To do so, SunAmerica seeks to take advantage of the growing need for insurance solutions to help Americans achieve their protection, investment, retirement savings and retirement income goals. With its comprehensive platform of products and services offered through a diverse multi-channel distribution network, SunAmerica is well positioned to help a wide array of customers meet their goals. SunAmerica plans to expand its distribution network by adding more distribution firms, increasing the number of individual agents and financial advisors who sell its products and seeking to increase the productivity of those agents and advisors already selling its products, especially those in its affiliated group of career agents and financial advisors.

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The following chart presents SunAmerica sales by distribution channel:

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

The following is a summary of SunAmerica's diversified distribution network:

Affiliated	**Non-affiliated**
VALIC career financial advisors Over 1,300 financial advisors serving the worksites of educational, not-for-profit and governmental organizations	*Banks* Fixed annuities sold by nearly 600 banks and 69,000 financial institution agents
American General Life and Accident Insurance Company (AGLA) career agents Over 3,100 agents focused on broad middle market	*Independent marketing organizations* Relationships with over 1,700 independent marketing organizations and brokerage general agencies providing access to over 150,000 licensed independent agents
Advisor Group Over 4,600 independent financial advisors	*Broker-dealers* Access to over 120,000 licensed financial professionals
Matrix Direct A leading direct-to-consumer distributor of life and A&H products	

SunAmerica pursues a disciplined approach to pricing, product feature development, risk management, asset/liability management and expense control. SunAmerica works to enhance operational efficiencies and service levels through prudent investments in technology, leveraging resources and enhancing utilization of lower cost operations centers.

DOMESTIC LIFE

SunAmerica's Domestic Life operations are conducted through American General.

American General is a leading provider of individual term and universal life insurance solutions to middle-income and high-net-worth customers. Primary products include term, universal and whole life insurance, A&H, fixed and indexed deferred annuities, fixed payout annuities, private placement variable annuities, structured settlements, terminal funding, corporate-owned life insurance, bank-owned life insurance and group benefits. American General distributes its products through AGLA, Matrix Direct and various independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct-to-consumer platforms.

In 2012, American General and Chartis combined their U.S. group benefits businesses under the name AIG Benefit Solutions. This business will continue to market a wide range of insurance and benefits products for employees, employers and affinity groups. In the near term, results of operations for the respective businesses will continue to be reported separately as part of American General and Chartis.

DOMESTIC RETIREMENT SERVICES

SunAmerica's Domestic Retirement Services operations consist of five business units:

VALIC is a leading provider of defined contribution retirement savings plans sponsored by education, not-for-profit and government organizations. Primary products include fixed and variable group annuities, and group mutual funds. VALIC also offers group administrative and compliance services, and individual annuity and mutual fund products. VALIC utilizes career and independent financial advisors to provide enrollment support and comprehensive financial planning services.

Western National is a leading provider of fixed deferred annuities to bank customers. Primary products include single and flexible premium deferred fixed annuities. Western National maintains its leading industry position in bank distribution through its collaborative product design process and efficient and flexible administration platform.

SARM is a leading provider of deferred variable annuities, which provide comprehensive retirement income solutions. Variable annuities provide market participation through a diverse menu of equity and fixed income portfolios, guaranteed death benefits and a suite of guaranteed retirement income solutions. SARM distributes products through banks and national, regional and independent broker-dealer firms.

Brokerage Services and Retail Mutual Funds includes the operations of SunAmerica Asset Management, which provides retail mutual funds and administration services for variable annuity funds sponsored by VALIC and SARM, and Advisor Group, which is one of the largest networks of independent financial advisors in the U.S.

Domestic Retirement Services also includes the operations of **SunAmerica Affordable Housing Partners**, runoff **GICs** and certain individual annuity portfolios.

The following charts present SunAmerica premiums and premiums, deposits and other considerations by line of business:

Premiums **Premiums, Deposits and Other Considerations**

Premiums represent premiums received on traditional life insurance policies and deposits on life contingent payout annuities. Premiums, deposits and other considerations is a non-GAAP measure which includes life insurance premiums as well as deposits on annuity contracts and mutual funds, but excludes policy fees.

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

Year Ended December 31, *(in millions)*		**2011**
Premiums, deposits and other considerations	$	23,838
Deposits		(21,376)
Other		51
Premiums	$	2,513

AIRCRAFT LEASING

Aircraft Leasing operations include the results of ILFC (and, since the date of its acquisition by ILFC, AeroTurbine, as discussed below). ILFC, one of the world's leading aircraft lessors, acquires commercial jet aircraft from various manufacturers and other parties and leases those aircraft to airlines around the world. ILFC believes its scale, the breadth and mix of its aircraft portfolio and its long-standing relationships with a global customer base that includes the majority of the world's leading airlines allow it to lease aircraft under favorable terms and maximize their utilization.

As of December 31, 2011, ILFC managed a lease portfolio of over 1,000 aircraft, including an owned fleet of 930 aircraft with a net book value of approximately $35.5 billion. ILFC reported $4.5 billion in revenues for 2011. More than 94 percent of ILFC's lease revenue came from non-U.S. carriers, and its fleet continues to be in high demand from such carriers.

On September 2, 2011, ILFC Holdings, Inc., an indirect, wholly-owned subsidiary of AIG, which is intended to become a holding company for ILFC, filed a registration statement on Form S-1 with the Securities and Exchange Commission (SEC) for a proposed initial public offering. The number of shares to be offered, price range and timing for any offering have not been determined. The timing of any offering will depend on market conditions and no assurance can be given regarding the terms of any offering or that an offering will be completed. On October 7, 2011, ILFC completed the acquisition of all the issued and outstanding shares of capital stock of AeroTurbine from AerCap, Inc. for an aggregate cash purchase price of $228 million. AeroTurbine is one of the world's largest providers of certified aircraft engines, aircraft and engine parts and supply chain solutions.

ILFC continues to execute on its strategy to manage its fleet of aircraft by ordering new aircraft with high customer demand and through potential sales or part-outs of its older aircraft which cannot be economically leased to customers.

OTHER OPERATIONS

AIG's Other operations include results from Mortgage Guaranty operations, Global Capital Markets operations, Direct Investment book, Retained Interests, Corporate & Other operations (after allocations to AIG's business segments), and in periods prior to 2011, those divested businesses not included in Discontinued operations.

MORTGAGE GUARANTY

UGC's main business is the issuance of residential mortgage guaranty insurance, both domestically and internationally, that covers mortgage lenders for 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. UGC previously insured second-lien and private student loans, but ceased insuring new business in these products in 2008, although certain of the second-lien policies are subject to reinstatement.

GLOBAL CAPITAL MARKETS

Global Capital Markets consist of the operations of AIG Markets and the remaining derivatives portfolio of AIGFP. AIG Markets acts as the derivatives intermediary between AIG companies and third parties, and executes its derivative trades under International Swaps and Derivatives Association, Inc. (ISDA) agreements. The agreements with third parties typically require collateral postings. Many of AIG Markets' transactions with AIG and its subsidiaries also include collateral posting requirements. However, generally, no collateral is called under these contracts unless it is needed to satisfy posting requirements with third parties.

The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011. Although the remaining AIGFP derivatives portfolio may experience periodic fair value volatility, the portfolio consists predominantly of transactions AIG believes are of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis. AIGFP is entering into new derivative transactions only to hedge its current portfolio.

DIRECT INVESTMENT BOOK

The Direct Investment book includes results of the MIP, AIG's historical program to generate spread income from investments yielding returns greater than AIG's cost of funds, and certain non-derivative assets and liabilities of AIGFP. The MIP assets and liabilities and the AIGFP portfolio are currently managed on a collective program basis to limit the need for additional liquidity from AIG Parent. Direct Investment book operating results are significantly affected by performance in the credit, equity, interest rate and foreign exchange markets.

RETAINED INTERESTS

Retained Interests represents the fair value gains or losses on the AIA Group Limited (AIA) ordinary shares retained following the AIA initial public offering, the retained interest in Maiden Lane III LLC (ML III) and, prior to their sale in March 2011, the MetLife, Inc. (MetLife) securities that were received as consideration from the sale of American Life Insurance Company (ALICO).

CORPORATE & OTHER

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

DIVESTED BUSINESSES

Divested businesses include the historical results of divested entities that did not meet the criteria for discontinued operations accounting treatment. Divested businesses include the historical results of AIA through October 29, 2010 and AIG's remaining consumer finance business, discussed below. In the third quarter of 2010, AIG completed an initial public offering of ordinary shares of AIA; upon completion of the initial public offering, AIG owned approximately 33 percent of the outstanding shares of AIA. Based on AIG's continuing involvement with AIA, as a result of its ownership of 33 percent of AIA's shares and board representation, AIA is not presented as a discontinued operation. Businesses divested in 2009 included Transatlantic Holdings, Inc. (Transatlantic), 21st Century Insurance Group; (including Agency Auto Division but excluding Chartis Private Client Group) (21st Century) and HSB Group, Inc. (HSB).

DISCONTINUED OPERATIONS

Discontinued operations include the results of ALICO, AIG Star Life Insurance Co., Ltd. (AIG Star), AIG Edison Life Insurance Company (AIG Edison), Nan Shan Life Insurance Company, Ltd. (Nan Shan) and American General Finance, Inc. (AGF). In the fourth quarter of 2010, AIG closed the sales of ALICO and AGF. On February 1, 2011 AIG closed the sale of AIG Star and AIG Edison and on August 18, 2011, AIG closed the sale of Nan Shan.

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

See Note 4 to the Consolidated Financial Statements for additional information on discontinued operations.

INSURANCE ACTIVITIES

LIABILITY FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSE

Background

Insurance companies are required to establish a liability for the ultimate costs, including loss adjustment expenses, of claims that have been reported but not settled and estimates of claims that have been incurred but not reported (IBNR). Insurance companies are also required to recognize as assets the portion of such liability that will be recovered from reinsurers. Reserves are discounted for future expected investment income, where permitted, as disclosed in Note 13 to the Consolidated Financial Statements.

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

Management reviews the adequacy of the established net liability for unpaid claims and claims adjustment expense (net loss reserves) utilizing a number of analytical reserve development techniques. Through the use of these techniques, management monitors the adequacy of AIG's established reserves and determines appropriate assumptions for inflation and other factors influencing loss costs. Also, analysis of emerging specific development patterns, such as case reserve redundancies or deficiencies and IBNR emergence, or analysis of specific structural drivers of losses such as the historical versus expected future levels of medical cost trends, unemployment levels and other macroeconomics indicators, as well as the legislative framework and social attitudes that affected the propensity to file claims or the magnitude of court awards, allows management to determine any required adjustments. A significant portion of Chartis' business is in the commercial casualty class, which tends to involve longer periods of time for the reporting and settlement of claims and may increase the risk and uncertainty with respect to Chartis' loss reserve development.

Analysis of Consolidated Loss Reserve Development

To understand the changes in estimates, it is useful to put them in the context of cumulative reserve development experienced by AIG over a longer time frame. The first table that follows presents the development of net loss reserves for calendar years 2001 through 2011. The net liability for unpaid claims and claims adjustment expenses (Net Reserves Held) at the balance sheet date is shown on the first row of the table, net of discount. This liability represents the estimated amount of losses and loss adjustment expenses for claims arising in all years prior to the balance sheet date that were unpaid as of that balance sheet date, including estimates for incurred but not reported claims. The amount of loss reserve discount included in the net reserves at each date is shown immediately below the net reserves held. The undiscounted reserve at each date is equal to the sum of the discount and the net reserves held.

The upper portion of the table presents the re-estimation over the years of the original undiscounted reserves. This re-estimation takes into consideration a number of factors, including changes in the estimated frequency of reported claims, effects of significant judgments, the emergence of latent exposures, and changes in medical cost trends. For example, in the first table, the original undiscounted reserve of $27.4 billion at December 31, 2001 was re-estimated to $55.4 billion at December 31, 2011. The amount of the development related to losses settled or re-estimated in 2011, but incurred in 2008, is included in the cumulative development amount for years 2008, 2009, and 2010. Any increase or decrease in the estimate is reflected in operating results in the period in which the estimate is changed.

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The net redundancy (deficiency) depicted in the middle of the table presents the aggregate change in estimates over the period of years subsequent to the balance sheet date reflected at the top of the respective column heading. For example, in the first table, the net loss reserve deficiency of $28.0 billion for 2001 is the difference between the original undiscounted reserve of $27.4 billion at December 31, 2001 and the $55.4 billion of re-estimated reserves at December 31, 2011. The net redundancy (deficiency) amounts are cumulative; in other words, the amount shown for the 2010 balance sheet date includes the amount shown for the 2009 balance sheet date. Conditions and trends that have affected development of the liability in the past may not necessarily occur in the future. Accordingly, it generally is not appropriate to extrapolate future development based on this table.

The bottom portion of the table presents the cumulative amounts paid during successive years related to the undiscounted loss reserves. For example, AIG has paid a total of $45.6 billion of the $55.4 billion in re-estimated reserves for December 31, 2001 at December 31, 2011, resulting in remaining undiscounted reserves of $9.8 billion for 2001. Also included in this section are the remaining undiscounted and discounted net loss reserves for each year.

The following table presents for each calendar year the loss reserves and the development thereof including those with respect to asbestos and environmental claims.[(a)]

(in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Reserves Held[(b)]	$ 26,005	$ 29,347	$ 36,228	$ 47,253	$ 57,476	$ 62,630	$ 69,288	$ 72,455	$ 67,899	$ 71,507	**$ 70,825**
Discount (in Reserves Held)	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655	3,217	**3,183**
Net Reserves Held (Undiscounted)	27,428	30,846	37,744	48,806	59,586	64,894	71,717	75,029	70,554	74,724	**$ 74,008**
Net undiscounted Reserve re-estimated as of:											
One year later	31,112	32,913	40,931	53,486	59,533	64,238	71,836	77,800	74,736	74,919	
Two years later	33,363	37,583	49,463	55,009	60,126	64,764	74,318	82,043	74,529		
Three years later	37,964	46,179	51,497	56,047	61,242	67,303	78,275	81,719			
Four years later	45,203	48,427	52,964	57,618	63,872	70,733	78,245				
Five years later	47,078	49,855	54,870	60,231	67,102	70,876					
Six years later	48,273	51,560	57,300	63,348	67,518						
Seven years later	49,803	53,917	60,283	63,928							

Eight years later	52,034	56,827	60,879							
Nine years later	54,847	57,410								
Ten years later	55,437									
Net Redundancy/ (Deficiency)	(28,009)	(26,564)	(23,135)	(15,122)	(7,932)	(5,982)	(6,528)	(6,690)	(3,975)	(195)
Paid (Cumulative) as of:										
One year later	11,007	10,775	12,163	14,910	15,326	14,862	16,531	24,267	15,919	17,661
Two years later	18,091	18,589	21,773	24,377	25,152	24,388	31,791	36,164	28,428	
Three years later	23,881	25,513	28,763	31,296	32,295	34,647	40,401	46,856		
Four years later	28,717	30,757	33,825	36,804	40,380	40,447	48,520			
Five years later	32,685	34,627	38,087	43,162	44,473	46,474				
Six years later	35,656	37,778	42,924	46,330	49,552					
Seven years later	38,116	41,493	45,215	50,462						
Eight years later	41,055	43,312	48,866							
Nine years later	42,591	46,622								
Ten years later	45,625									
Remaining Reserves (Undiscounted)	9,812	10,788	12,013	13,466	17,966	24,402	29,725	34,863	46,101	57,258
Remaining Discount	806	950	1,073	1,182	1,321	1,507	1,772	2,086	2,464	2,841
Remaining Reserves	$ 9,006	$ 9,838	$ 10,940	$ 12,284	$ 16,645	$ 22,895	$ 27,953	$ 32,777	$ 43,637	$ 54,417

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The following table presents the consolidated gross liability (before discount), reinsurance recoverable and net liability recorded for each calendar year, and the reestimation of these amounts as of December 31, 2011[(a)]:

(in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Liability, End of Year	$ 27,428	$ 30,846	$ 37,744	$ 48,806	$ 59,586	$ 64,894	$ 71,717	$ 75,029	$ 70,554	$ 74,724	**$ 74,008**
Reinsurance Recoverable, End of Year	15,201	17,327	15,644	14,624	19,693	17,369	16,212	16,803	17,487	19,644	**20,320**
Gross Liability, End of Year	42,629	48,173	53,388	63,430	79,279	82,263	87,929	91,832	88,041	94,368	**$ 94,328**
Re-estimated Net Liability	55,437	57,410	60,879	63,928	67,518	70,876	78,245	81,719	74,529	74,919	
Re-estimated Reinsurance Recoverable	25,783	25,630	23,205	21,329	24,271	20,835	19,444	18,808	19,163	19,473	
Re-estimated Gross Liability	81,220	83,040	84,084	85,257	91,789	91,711	97,689	100,527	93,692	94,392	
Cumulative Gross Redundancy/(Deficiency)	$ (38,591)	$ (34,867)	$ (30,696)	$ (21,827)	$ (12,510)	$ (9,448)	$ (9,760)	$ (8,695)	$ (5,651)	$ (24)	

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

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

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Consolidated Loss Reserve Development Excluding Asbestos and Environmental Reserve Development

The following table presents for each calendar year the loss reserves and the development thereof excluding those with respect to asbestos and environmental claims for each calendar year.[(a)]

(in millions)	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Net Reserves Held[(b)]	$ 25,286	$ 28,651	$ 35,559	$ 45,742	$ 55,226	$ 60,451	$ 67,597	$ 71,062	$ 66,588	$ 69,157	**$ 70,169**
Discount (in Reserves Held)	1,423	1,499	1,516	1,553	2,110	2,264	2,429	2,574	2,655	3,055	**3,095**
Net Reserves Held (Undiscounted)	26,709	30,150	37,075	47,295	57,336	62,715	70,026	73,636	69,243	72,212	**73,264**
Undiscounted Liability as of:											
One year later	30,274	32,129	39,261	51,048	57,077	62,043	70,096	76,251	71,925	72,200	
Two years later	32,438	35,803	46,865	52,364	57,653	62,521	72,423	78,994	71,510		
Three years later	36,043	43,467	48,691	53,385	58,721	64,904	74,880	78,464			
Four years later	42,348	45,510	50,140	54,908	61,195	66,833	74,643				
Five years later	44,018	46,925	51,997	57,365	62,924	66,768					
Six years later	45,201	48,584	54,272	58,981	63,131						
Seven years later	46,685	50,786	55,753	59,350							
Eight years later	48,761	52,199	56,138								
Nine years later	50,077	52,570									
Ten years later	50,454										
Net Redundancy/(Deficiency)	(23,745)	(22,420)	(19,063)	(12,055)	(5,795)	(4,053)	(4,617)	(4,828)	(2,267)	12	

Paid (Cumulative) as of:										
One year later	10,861	10,632	11,999	14,718	15,047	14,356	16,183	24,028	15,618	15,686
Two years later	17,801	18,283	21,419	23,906	24,367	23,535	31,204	35,613	26,154	
Three years later	23,430	25,021	28,129	30,320	31,163	33,555	39,503	44,333		
Four years later	28,080	29,987	32,686	35,481	39,009	39,044	45,650			
Five years later	31,771	33,353	36,601	41,600	42,791	43,098				
Six years later	34,238	36,159	41,198	44,456	45,897					
Seven years later	36,353	39,637	43,178	46,616						
Eight years later	39,055	41,163	44,856							
Nine years later	40,299	42,502								
Ten years later	41,362									
Remaining Reserves (Undiscounted)	9,092	10,068	11,282	12,734	17,234	23,670	28,993	34,131	45,356	56,514
Remaining Discount	644	788	911	1,020	1,159	1,344	1,610	1,924	2,302	2,753
Remaining Reserves	$ 8,448	$ 9,280	$ 10,371	$ 11,714	$ 16,075	$ 22,326	$ 27,383	$ 32,207	$ 43,054	$ 53,761

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The following table presents the gross liability excluding amounts for asbestos and environmental claims (before discount), reinsurance recoverable and net liability for each calendar year and the reestimation of these amounts as of December 31, 2011[(a)]:

(in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Net Liability, End of Year	$ 26,709	$ 30,149	$ 37,075	$ 47,295	$ 57,336	$ 62,715	$ 70,026	$ 73,636	$ 69,243	$ 72,212	**$ 73,264**
Reinsurance Recoverable, End of Year	13,691	15,887	14,288	12,495	16,472	14,396	13,525	14,337	15,224	16,004	**15,438**
Gross Liability, End of Year	40,400	46,036	51,363	59,790	73,808	77,111	83,551	87,973	84,467	88,216	**$ 88,702**
Re-estimated Net Liability	50,454	52,570	56,138	59,350	63,131	66,768	74,643	78,464	71,510	72,200	
Re-estimated Reinsurance Recoverable	19,314	19,361	17,220	15,472	18,646	15,589	14,572	14,337	15,224	16,004	
Re-estimated Gross Liability	69,768	71,931	73,358	74,822	81,777	82,357	89,215	92,801	86,734	88,204	
Cumulative Gross Redundancy/(Deficiency)	$ (29,368)	$ (25,895)	$ (21,995)	$ (15,032)	$ (7,969)	$ (5,246)	$ (5,664)	$ (4,828)	$ (2,267)	$ 12	

(a) *During 2009, Transatlantic was deconsolidated and 21st Century and HSB were sold. The sales and deconsolidation are reflected in the table above as a reduction in December 31, 2009 net reserves of $9.6 billion and as an $8.6 billion increase in paid losses for the years 2000 through 2008 to remove the reserves for these divested entities from the ending balance.*

(b) *The increase in Net Reserves Held from 2009 to 2010 is partially attributable to the $1.7 billion in Net Reserves Held by Fuji, which was acquired in 2010.*

The Liability for unpaid claims and claims adjustment expense as reported in AIG's Consolidated Balance Sheet at December 31, 2011 differs from the total reserve reported in the annual statements filed with state insurance departments and, where applicable, with foreign regulatory authorities. The differences at December 31, 2011 relate primarily to reserves for certain foreign operations not required or permitted to be reported in the United States for statutory reporting purposes, including contingency reserves for catastrophic events. Further, statutory practices in the United States require reserves to be shown net of applicable reinsurance recoverables. In addition, unlike statutory financial statements, AIG's Liability for unpaid claims and claims adjustment expense reported on its Consolidated Balance Sheet and the amounts in the tables above exclude the effect of intercompany transactions.

Gross loss reserves are calculated without reduction for reinsurance recoverables and represent the accumulation of estimates for reported losses and IBNR. Management reviews the adequacy of established gross loss reserves in the manner previously described for net loss reserves.

Additional information related to reserve development is included in Item 7. MD&A Results of Operations Segment Results Chartis Operations Liability for Unpaid Claims and Claims Adjustment Expense. A sensitivity analysis of loss reserves held at December 31, 2011, is included in Item 7. MD&A Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expense.

REINSURANCE ACTIVITIES

AIG subsidiaries operate worldwide primarily by underwriting and accepting risks for their direct account on a gross line basis and subsequently reinsuring on either an individual risk or an aggregate basis to the extent those risks exceed the desired retention level.

For a further discussion of reinsurance, see Item 1A. Risk Factors Reinsurance; and Item 7. MD&A Enterprise Risk Management Business Unit Risk Management Reinsurance.

INSURANCE INVESTMENT ACTIVITIES

A significant portion of the revenues of Chartis and SunAmerica operations is derived from AIG's insurance investment activities. As insurance companies, Chartis and SunAmerica generally receive premiums and deposits well in advance of paying covered claims or benefits. In the intervening periods, these premiums and deposits are invested to generate net investment income and fee income that is available to pay claims or benefits.

AIG's worldwide insurance investment policy places primary emphasis on investments in fixed income securities of corporations, municipal bonds and government issuances in all of its portfolios, and, to a lesser extent, investments in high-yield bonds, common stocks, real estate, hedge funds and other alternative investments.

The majority of assets backing insurance liabilities at AIG consist of intermediate and long duration fixed maturity securities.

In the case of SunAmerica, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with assets of comparable duration. SunAmerica also invests in a diversified portfolio of private equity funds, hedge funds and affordable housing partnerships. Although subject to periodic volatility, these investments, to date, have achieved yields in excess of SunAmerica's base portfolio yield. SunAmerica's expectation is that these alternative investments will continue to outperform the base portfolio yield over the long-term.

Fixed maturity securities held by the insurance companies included in Chartis domestic operations historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to meet the Chartis domestic operations' current risk/return and tax objectives, the domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments meeting the companies' liquidity, duration and quality objectives as well as current risk-return and tax objectives. Fixed maturity securities held by Chartis operations internationally consist primarily of intermediate duration high-grade securities.

See Item 7. MD&A Investments Investment Strategies for discussion of AIG's investment strategy.

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

Years Ended December 31, *(in millions)*	**Annual Average Investments**[(a)]	**Net Investment Income**	**Pre-tax Return on Average Investments**[(b)]
Chartis:			
2011	**$ 113,405**	**$ 4,348**	**3.8%**
2010	100,583	4,392	4.4
2009	89,236	3,292	3.7
SunAmerica:			
2011	**$ 172,846**	**$ 9,882**	**5.7%**
2010	154,167	10,768	7.0
2009	148,202	9,553	6.4

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

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

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LOCATIONS OF CERTAIN ASSETS

As of December 31, 2011, approximately 14 percent of the consolidated assets of AIG were located outside the U.S. and Canada, including $188 million of cash and securities on deposit with regulatory authorities in those locations. Operations outside the U.S. and Canada and assets held abroad may be adversely affected by political developments in foreign countries, including tax changes, nationalization and changes in regulatory policy, as well as by consequence of hostilities and unrest. The risks of such occurrences and their overall effect upon AIG vary from country to country and cannot easily be predicted. If expropriation or nationalization does occur, AIG's policy is to take all appropriate measures to seek recovery of any affected assets. Certain of the countries in which AIG's business is conducted have currency restrictions that generally cause a delay in a company's ability to repatriate assets and profits. See also Item 1A. Risk Factors Foreign Operations and Notes 2 and 3 to the Consolidated Financial Statements.

REGULATION

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

SUPERVISORY COORDINATOR

In 1999, AIG became a unitary savings and loan holding company within the meaning of the Home Owners' Loan Act (HOLA) when the U.S. Office of Thrift Supervision (OTS) granted AIG approval to organize AIG Federal Savings Bank. Until March 2010, AIG was subject to OTS regulation, examination, supervision and reporting requirements.

Under prior law, a unitary savings and loan holding company, such as AIG, was not restricted as to the types of business in which it could engage, provided that its savings association subsidiary continued to be a qualified thrift lender. The Gramm-Leach-Bliley Act of 1999 (GLBA) provides that no company may acquire control of an OTS-regulated institution after May 4, 1999 unless it engages only in the financial activities permitted for financial holding companies under the law or for multiple savings and loan holding companies. The GLBA, however, grandfathered the unrestricted authority for activities with respect to a unitary savings and loan holding company existing prior to May 4, 1999, so long as its savings association subsidiary continues to be a qualified thrift lender under HOLA. As a unitary savings and loan holding company whose application was pending as of May 4, 1999, AIG is grandfathered under GLBA and generally is not restricted under existing laws as to the types of business activities in which it may engage, provided that AIG Federal Savings Bank continues to be a qualified thrift lender under HOLA.

Directive 2002/87/EC (the Directive) issued by the European Parliament provides that certain financial conglomerates with regulated entities in the European Union, such as AIG, are subject to supplementary supervision. Pursuant to the Directive, the Commission Bancaire, the French banking regulator, was appointed as AIG's supervisory coordinator. From February 2007 until March 2010, with the approval of the Commission Bancaire, the OTS acted as AIG's equivalent supervisor, as permitted by the Directive in circumstances in which a financial conglomerate organized outside the European Union, such as AIG, has proposed to have one of its existing regulators recognized as its coordinator and such regulator's supervision is determined to be equivalent to that required by the Directive. Since March 2010, AIG has been in discussions with, and has provided information to, the Autorité de Contrôle Prudentiel (formerly, the Commission Bancaire) and the UK Financial Services Authority regarding the possibility of proposing another of AIG's existing regulators as its equivalent supervisor.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) was signed into law. Dodd-Frank effects comprehensive changes to the regulation of financial services in the United States and will subject AIG to substantial additional federal regulation. Dodd-Frank is intended to enhance the safety and soundness of U.S. financial institutions and increase public confidence in them. Dodd-Frank directs existing and newly-created government agencies and oversight bodies to promulgate regulations implementing the law, an

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ongoing process that has begun and is anticipated to continue over the next few years. While a number of regulations have been adopted, other regulations have only been proposed or have yet to be proposed. Therefore, AIG cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect the financial markets generally; impact AIG's businesses, results of operations, cash flows or financial condition; or require AIG to raise additional capital or result in a downgrade of AIG's credit ratings.

On January 5, 2012, the Board of Governors of the Federal Reserve System (the FRB) published for public comment a notice of proposed rulemaking implementing the enhanced prudential standards and early remediation requirements that will apply to non-bank systemically important financial institutions (SIFIs). If those rules are adopted in the form proposed and AIG is designated as a non-bank SIFI, AIG would be required, among other things,

- to comply with FRB regulations relating to capital plans and stress tests and to calculate AIG's minimum risk-based and leverage capital requirements, each as if it were a bank holding company;

- to maintain a Tier 1 risk-based capital ratio of four percent, a total risk-based capital ratio of eight percent and a Tier 1 leverage ratio of four percent;

- to maintain a ratio of Tier 1 common equity to risk weighted assets of five percent under both expected and stressed conditions in order to be able to engage in capital distributions;

- to comply with additional liquidity-related requirements, such as to produce comprehensive cash flow projections, to regularly stress test cash flow projections, to maintain a liquidity buffer of highly liquid assets that are unencumbered, to establish and maintain a contingency funding plan for liquidity stress events, and to establish or maintain limits on potential sources of liquidity risk;

- not to have aggregate net credit exposure to any single unaffiliated counterparty that exceeds 25 percent of AIG's consolidated capital stock and surplus, or 10 percent if the counterparty has $500 billion or more in total consolidated assets;

- to be subject to an annual stress test conducted by the FRB and annual and semi-annual self-administered stress tests;

- to be subject to early remediation actions upon occurrence of trigger events (such as failure to maintain the capital that is commensurate with the level and nature of the risks to which AIG is exposed, or non-compliance with FRB's stress test), which early remediation actions could vary from heightened supervisory review by the FRB to an FRB-recommended resolution of AIG, based on the seriousness of the trigger events;

- to maintain a debt-to-equity ratio, measured by "total liabilities" and "total equity capital", of no more than 15-to-1 upon a determination by the Financial Stability Oversight Council (the Council) that (i) the company poses a grave threat to the financial stability of the United States and (ii) the imposition of such requirement is necessary to mitigate the risk that such company poses to the financial stability of the United States; and

- to comply with certain corporate governance requirements, such as additional responsibilities of the board of directors and the creation of a separate risk committee of the board of directors.

Dodd-Frank's potential impact on AIG also includes the following:

The new legislation provides two scenarios in which the Board of Governors of the FRB could become AIG's regulator: (1) if AIG is recognized as a "savings and loan holding company" as defined by the HOLA and/or (2) if Council designates AIG as a SIFI.

If AIG becomes subject, as a savings and loan holding company, to the examination, enforcement and supervisory authority of the FRB, the FRB would be required to impose minimum leverage and risk-based capital requirements on AIG and its subsidiaries. AIG cannot predict what capital regulations the FRB would promulgate under these authorizations, either generally or as applicable to insurance businesses, nor can AIG predict how the FRB would exercise general supervisory authority over AIG. AIG expects, however, that when the Department of the Treasury ceases to own at least 50 percent of the outstanding shares of AIG Common Stock, AIG will become regulated by the FRB as a savings and loan holding company.

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

In either scenario, AIG would become subject to stress tests to determine whether, on a consolidated basis, AIG has the capital necessary to absorb losses due to adverse economic conditions.

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

In October 2011, federal regulators issued a proposed rule implementing certain provisions in Dodd-Frank referred to as the "Volcker Rule". Under the proposed rule, if AIG continues to control AIG Federal Savings Bank, AIG and its affiliates would be considered banking entities and would become subject to the provisions of Dodd-Frank prohibiting, subject to the rule's exceptions, "proprietary trading" and the sponsorship of, or investment in, hedge, private equity or similar funds and the provision of guarantees related to such activities. Even if AIG no longer controlled an insured depository institution, AIG might still be subject to additional capital and quantitative limitations under the Volcker Rule. The Volcker Rule, as proposed, contains an exemption for proprietary trading by insurance companies for their general account, but the final breadth and scope of this exemption is uncertain.

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

Dodd-Frank establishes a new framework for regulation of the over-the-counter (OTC) derivatives markets and certain market participants that could affect various activities of AIG and its insurance subsidiaries, as well as Global Capital Markets. These regulations could impose margin or collateral requirements on derivative transactions entered into by AIG prior to the passage of Dodd-Frank or intercompany derivative transactions between AIG and one or more of its affiliates or between affiliates. Any such margin or collateral requirements could adversely affect AIG's liquidity and credit ratings. The Commodity Futures Trading Commission (CFTC) and SEC have published proposed rules governing major swap participants and major security-based swap participants. If AIG or one or more of its subsidiaries meet the tests finally adopted by the CFTC or SEC, AIG or one or more of its subsidiaries may become subject to derivative transaction clearing, execution and reporting requirements, capital and margin requirements and business conduct rules.

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

Dodd-Frank established a Federal Insurance Office (FIO) within the Department of the Treasury headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory

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authority over the business of insurance, the director of this office performs various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council and participating in the Council's decisions regarding insurers, potentially including AIG, to be designated as a SIFI. The director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states. The FIO may also recommend enhanced regulations to state insurance regulatory bodies.

Dodd-Frank authorizes the FRB to require a savings and loan holding company or a SIFI to place its financial activities in an intermediate holding company separate from non-financial activities (as defined for purposes of the Bank Holding Company Act) and imposes restrictions on transactions between the two businesses, which could be burdensome and costly to implement.

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

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

Dodd-Frank seeks to increase efficiency, reduce transaction costs and improve consumer access in the nonadmitted property and casualty insurance market (excess and surplus lines). AIG expects that these measures will make certain of Chartis' operations within the U.S. more streamlined and efficient, although they could lead to greater competition in these markets.

Dodd-Frank includes various securities law reforms that may affect AIG's business practices and the liabilities and/or exposures associated therewith, including:

The SEC completed a staff report on registered broker-dealers who provide personalized investment advice to retail investors, such as certain of SunAmerica's operations. The staff report recommended to Congress a uniform fiduciary standard of conduct for broker-dealers and investment advisers. The SEC may also require broker-dealers selling proprietary or a limited range of products to make certain disclosures and obtain customer consents or acknowledgements.

The SEC and other regulators proposed regulations requiring the originator of certain asset-backed securities to retain at least five percent of the credit risk of securities sold, which, if adopted, may apply to activities of subsidiaries of AIG as part of their funding activities in the future.

Dodd-Frank imposes various assessments on financial companies, including, as applicable to AIG, ex-post assessments to provide funds necessary to repay any borrowing and to cover the costs of any special resolution of a financial company conducted under Title II (although the regulatory authority would have to take account of the amounts paid by AIG into state guaranty funds). AIG cannot predict the potential effects the new legislation will have on its organizational structure, financial condition or results of operations. However, it is possible that such effect could be materially adverse. See Item 1A. Risk Factors Regulation for additional information.

In addition to the adoption of Dodd-Frank in the United States, regulators and lawmakers around the world are actively reviewing the causes of the financial crisis and taking steps to avoid similar problems in the future. The Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, has issued a series of frameworks and recommendations intended to produce significant changes in how financial companies, particularly systematically important financial institutions, should be regulated. These frameworks and recommendations address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including compensation, and a host of related issues associated with responses to the financial crisis. The FSB has directed the International Association of Insurance Supervisors (the

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

AIG cannot predict whether these actions will become effective or the effect they may have on the financial markets or on AIG's business, results of operations, cash flows, financial condition and credit ratings.

OTHER REGULATORY DEVELOPMENTS

AIG's operations are subject to regulatory supervision and the possibility of intervention. In light of AIG's liquidity problems beginning in the third quarter of 2008, AIG and its regulated subsidiaries have been subject to intense review and supervision around the world. Regulators have taken significant steps to protect the businesses of the entities they regulate. These steps have included:

- restricting or prohibiting the payment of dividends to AIG Parent and its subsidiaries;
- restricting or prohibiting other payments to AIG Parent and its subsidiaries;
- requesting additional capital contributions from AIG Parent;
- requesting that intercompany reinsurance reserves be covered by assets locally;
- restricting the business in which the subsidiaries may engage;
- requiring pre-approval of all proposed transactions between the regulated subsidiaries and AIG Parent or any affiliate; and
- requiring more frequent reporting, including with respect to capital and liquidity positions.

Many of these prohibitions and restrictions have been relaxed. However, AIG continues to be subject to heightened regulatory scrutiny.

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

AIG expects that the regulations applicable to it and its regulated entities will continue to evolve for the foreseeable future.

REGULATION OF INSURANCE SUBSIDIARIES

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

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by the insurance subsidiary, within the holding company system. AIG's subsidiaries are registered under such legislation in those states that have such requirements.

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

AIG has taken various steps to enhance the capital positions of the domestic Chartis and SunAmerica companies. AIG entered into capital maintenance agreements with these companies that set forth procedures through which AIG has provided, and expects to continue to provide, capital support. Also, in order to allow the domestic Chartis and SunAmerica companies to record as an admitted asset at December 31, 2011 certain reinsurance ceded to reinsurers, which has the effect of maintaining the level of the statutory surplus of such companies, AIG obtained and entered into reimbursement agreements for approximately $1.45 billion and $800 million of letters of credit issued by several commercial banks in favor of certain Chartis and SunAmerica companies, respectively.

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

The statutory surplus of each of AIG's U.S.-based life and property and casualty insurance subsidiaries exceeded RBC minimum required levels as of December 31, 2011.

To the extent that any of AIG's insurance entities would fall below prescribed levels of statutory surplus, it would be AIG's intention to provide appropriate capital or other types of support to that entity, under formal support agreements or CMAs or otherwise. For additional details regarding CMAs that AIG has entered into with its insurance subsidiaries, see Item 7. MD&A Liquidity of Parent and Subsidiaries Chartis, and Liquidity of Parent and Subsidiaries.

There are a number of proposals to amend state insurance laws and regulations in ways that could affect AIG and its subsidiaries. The National Association of Insurance Commissioners (NAIC) has recently adopted or amended model laws on holding company regulation that would provide for supervision of insurers at the corporate group level. Although these changes are only beginning to be adopted by individual state regulators, it can be expected that most will ultimately adopt them in some form. The various proposals to implement group supervision include:

- uniform standards for insurer corporate governance;
- group-wide supervision of insurance holding companies;
- adjustments to RBC calculations to account for group-wide risks; and
- additional regulatory and disclosure requirements for insurance holding companies.

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

AIG cannot predict the potential effect that any new regulations would have on AIG's insurance subsidiaries or on AIG's business, results of operations, cash flows or financial condition.

REGULATION OF DOMESTIC SUBSIDIARIES IN FOREIGN JURISDICTIONS

A substantial portion of Chartis' business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification or revocation by such authorities, and these subsidiaries could be prevented from conducting business in certain of the jurisdictions where they currently operate.

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

See Item 7. MD&A Capital Resources and Liquidity Regulation and Supervision and Note 18 to the Consolidated Financial Statements.

COMPETITION

AIG's businesses operate in highly competitive environments, both domestically and overseas. Principal sources of competition are insurance companies, banks, investment banks and other non-bank financial institutions. AIG considers its principal competitors to be other large multi-national insurance organizations.

The insurance industry in particular is highly competitive. Within the United States, Chartis subsidiaries compete with approximately 3,200 other stock companies, specialty insurance organizations, mutual companies and other underwriting organizations. SunAmerica subsidiaries compete in the United States with approximately 2,000 life insurance companies and other participants in related financial services fields. Overseas, AIG's subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies in particular areas in which they are active.

As a result of the reduction of the credit ratings of AIG and its subsidiaries, AIG's businesses have faced and continue to face intense competition to retain existing customers and to maintain business with existing customers and counterparties at historical levels. General insurance and life insurance companies compete through a combination of risk acceptance criteria, product pricing, and terms and conditions. Retirement services companies compete through crediting rates and the issuance of guaranteed benefits.

For a further discussion of the risks relating to retaining existing customers, soliciting new customers and retaining key employees, see Item 1A. Risk Factors Competition.

OTHER INFORMATION ABOUT AIG

At December 31, 2011, AIG and its subsidiaries had approximately 57,000 employees.

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AIG's internet address for its corporate website is *www.aig.com.* AIG makes available free of charge, through the Investor Information section of AIG's corporate website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and Proxy Statements on Schedule 14A and amendments to those reports or statements filed or furnished pursuant to Sections 13(a), 14(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such materials are electronically filed with, or furnished to, the SEC. AIG also makes available on its corporate website copies of the charters for its Audit, Nominating and Corporate Governance, Compensation and Management Resources, Finance and Risk Management, and Regulatory, Compliance and Public Policy Committees, as well as its Corporate Governance Guidelines (which include Director Independence Standards), Director, Executive Officer and Senior Financial Officer Code of Business Conduct and Ethics, Employee Code of Conduct and Related-Party Transactions Approval Policy. Except for the documents specifically incorporated by reference into this Annual Report on Form 10-K, information contained on AIG's website or that can be accessed through its website is not incorporated by reference into this Annual Report on Form 10-K.

DIRECTORS AND OFFICERS OF AIG

Information concerning the directors and executive officers of AIG as of February 23, 2012 is set forth below.

Name	Title	Age	Served as Director or Officer Since
Robert H. Benmosche	Director, President and Chief Executive Officer	66	2009
W. Don Cornwell	Director	64	2011
John H. Fitzpatrick	Director	55	2011
Laurette T. Koellner	Director	57	2009
Donald H. Layton	Director	61	2010
Christopher S. Lynch	Director	54	2009
Arthur C. Martinez	Director	72	2009
George L. Miles, Jr.	Director	70	2005
Henry S. Miller	Director	66	2010
Robert S. Miller	Chairman	70	2009
Suzanne Nora Johnson	Director	54	2008
Morris W. Offit	Director	75	2005
Ronald A. Rittenmeyer	Director	64	2010
Douglas M. Steenland	Director	60	2009
William N. Dooley	Executive Vice President Investments and Financial Services	58	1992
Peter D. Hancock	Executive Vice President General Insurance	53	2010
David L. Herzog	Executive Vice President and Chief Financial Officer	52	2005
Thomas A. Russo	Executive Vice President Legal, Compliance, Regulatory Affairs, Government Affairs and General Counsel	68	2010
Brian T. Schreiber	Executive Vice President and Treasurer	46	2002
Jay S. Wintrob	Executive Vice President Domestic Life and Retirement Services	54	1999
Michael R. Cowan	Senior Vice President and Chief Administrative Officer	58	2011
Jeffrey J. Hurd	Senior Vice President Human Resources and Communications	45	2010
Sid Sankaran	Senior Vice President and Chief Risk Officer	34	2010
Charles S. Shamieh	Senior Vice President Chief Corporate Actuary	45	2011

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

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

Robert Benmosche joined AIG as Chief Executive Officer in August 2009. Prior to joining AIG, Mr. Benmosche served as a member of the Board of Directors of Credit Suisse Group since 2002. In addition,

Mr. Benmosche was the former Chairman, President and Chief Executive Officer of MetLife, a leading provider of insurance and other financial services from 1998 until 2006.

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

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

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

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

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

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ITEM 1A. RISK FACTORS

We were significantly and adversely affected by the market turmoil in late 2008 and early 2009. In addition, we continued to experience a challenging business environment, as well as volatile market conditions, throughout 2011. As a result, our businesses, consolidated results of operations, financial conditions and liquidity are subject to significant risks, as discussed below. This challenging environment and volatile market conditions may continue in 2012.

The risks described below are not the only ones we face. Additional risks that are not currently known to us or that we currently believe are immaterial may also adversely affect our businesses, results of operations, financial condition or liquidity. Many of these risks are interrelated and occur under similar business and economic conditions, and the occurrence of certain of them may in turn cause the emergence, or exacerbate the effect, of others. Such a combination could materially increase the severity of the impact on our operations, liquidity and financial condition.

MARKET CONDITIONS

Our businesses, consolidated results of operations and financial condition have been, and may continue to be, materially and adversely affected by market conditions. Our businesses are highly dependent on the business environment in which they operate. In 2008 and through early 2009, the significant deterioration in worldwide economic conditions materially and adversely affected our businesses. The global financial crisis resulted in a serious lack of liquidity, highly volatile markets, a steep depreciation in asset values across all classes, an erosion of investor and public confidence, a widening of credit spreads, a lack of price transparency in many markets, and the collapse or merger of several prominent financial institutions. Difficult economic conditions also resulted in increased unemployment and a severe decline in business activity across a wide range of industries and regions. A challenging business environment and volatile markets persisted through 2011 and may continue in 2012. As a result, asset values for many asset classes have not returned to previous levels, and business, financial and economic conditions continue to be negatively affected, particularly in light of high unemployment levels. Revenue and budget constraints affecting U.S. municipalities, lending activities and the housing and commercial property markets also continue to have a negative effect on asset values. Further, the adverse European economic and financial conditions related to sovereign debt issues in certain countries and concerns regarding the European Union have contributed to increased instability in global credit markets. If such conditions persist, we may be negatively affected in a number of ways, including, but not limited to:

- declines in the valuation and performance of our investment portfolio;
- declines in the value of our remaining shares in AIA;
- an inability to monetize our interest in ILFC;
- increased credit losses;
- impairments of goodwill, aircraft and other long-lived assets;
- additional statutory capital requirements;
- limitations on our ability to recover deferred tax assets;
- a decline in new business levels;

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

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

higher borrowing costs and more limited availability of credit for AIG Parent and our subsidiaries;

an increase in policy surrenders and cancellations; and

a writeoff of deferred policy acquisition costs (DAC).

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Sustained low interest rates may affect our profitability. We have substantial investment portfolios that support our policy liabilities. Low levels of interest rates on investments have reduced the level of investment income earned by AIG. If a low interest-rate environment persists, we may experience slower investment income growth and we may not be able to fully mitigate the interest rate risk of our assets relative to our liabilities. A decline in interest rates could impair our ability to earn the returns assumed in the pricing and the reserving for our products at the time they were sold and issued.

INVESTMENT PORTFOLIO AND CONCENTRATION OF INVESTMENTS, INSURANCE AND OTHER EXPOSURES

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

Concentration of our investment portfolios in any particular segment of the economy may have adverse effects. Our results of operations have been adversely affected and may continue to be adversely affected by a concentration in residential mortgage-backed, commercial mortgage-backed and other asset-backed securities and commercial mortgage loans. We also have significant exposures to: financial institutions and, in particular, to money center and global banks; U.S. state and local government issuers and authorities (as described below); and Eurozone financial institutions and governments and corporations. These types of concentrations in our investment portfolios could have an adverse effect on the value of these portfolios and consequently on our consolidated results of operations and financial condition. Events or developments that have a negative effect on any particular industry, asset class, group of related industries or geographic region may have a greater adverse effect on the investment portfolios to the extent that the portfolios are concentrated. Furthermore, our ability to sell assets relating to such particular groups of related assets may be limited if other market participants are seeking to sell at the same time.

The value of our investment portfolio is exposed to the creditworthiness of state and municipal governments. We hold a large portfolio of state and municipal bonds ($37.4 billion at December 31, 2011), primarily in Chartis, and, because of the budgetary pressures that states and municipalities are continuing to face in the current economic environment, the risks associated with this portfolio remain. Defaults, or the prospect of imminent defaults, by the issuers of state and municipal bonds could cause our portfolio to decline in value and significantly reduce the portfolio's liquidity, which could also adversely affect AIG Parent's liquidity if AIG Parent then needed, or was required by its capital maintenance agreements, to provide additional capital support to the insurance subsidiaries holding the affected state and municipal bonds. As with our fixed income security portfolio generally, rising interest rates would also negatively affect the value of our portfolio of state and municipal bonds and could make those instruments more difficult to sell. A decline in the liquidity or market value of these instruments, which are carried at fair value for statutory purposes, could also result in a decline in the Chartis entities' capital ratios and, in turn, require AIG Parent to provide additional capital to those entities.

Concentration of our insurance and other risk exposures may have adverse effects. We seek to manage the risks to which we are exposed as a result of the securities or loans we hold and the insurance policies, derivatives and other obligations that we undertake to customers and counterparties by monitoring the accumulation of our exposures by exposure type, industry, geographic region, counterparty and otherwise and by using reinsurance, hedging and other arrangements to limit or offset exposures that exceed the limits we wish to retain. In certain circumstances, or with respect to certain exposures, such risk management arrangements may not be available on acceptable terms or may prove to be ineffective, or our exposure in absolute terms may be so large that even slightly adverse experience compared to our expectations may have a material adverse effect on our consolidated financial condition or results of operations or result in additional statutory capital requirements.

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CASUALTY INSURANCE RESERVES

Casualty insurance liabilities are difficult to predict and may exceed the related reserves for losses and loss expenses. Although we regularly review the adequacy of the established Liability for unpaid claims and claims adjustment expense and conduct extensive analyses of our reserves during the year, there can be no assurance that our loss reserves will not develop adversely and have a material adverse effect on our results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include but are not limited to general liability, commercial automobile liability, environmental, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, D&O and products liability. A number of analytical reserve development techniques are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. There is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation or in the judicial environment, or in other social or economic phenomena affecting claims. For a further discussion of our loss reserves, see Item 7. MD&A Results of Operations Segment Results Chartis Operations Liability for Unpaid Claims and Claims Adjustment Expense and Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expenses (Chartis and Mortgage Guaranty).

CATASTROPHE EXPOSURES

The occurrence of catastrophic events could adversely affect our consolidated financial condition, results of operations and liquidity. The occurrence of events such as hurricanes, windstorms, flooding, earthquakes, pandemic disease, acts of terrorism and other catastrophes has in the past and could in the future adversely affect our consolidated financial condition, results of operations and liquidity, including by exposing our businesses to the following:

- widespread claim costs associated with property, workers' compensation, business interruption, mortality and morbidity claims;
- loss resulting from a decline in the value of invested assets to below the amount required to meet policy and contract liabilities; and
- loss resulting from actual policy experience emerging adversely in comparison to the assumptions made in the product pricing related to frequency, severity, mortality, morbidity, termination and expenses.

For a sensitivity analysis of our exposure to certain catastrophes, see Item 7. MD&A Enterprise Risk Management Business Unit Risk Management Insurance Operations Chartis Catastrophe Exposures.

CREDIT AND FINANCIAL STRENGTH RATINGS

A downgrade in the Insurer Financial Strength ratings of our insurance companies could prevent the companies from writing new business and retaining customers and business. Insurer Financial Strength (IFS) ratings are an important factor in establishing the competitive position of insurance companies. IFS ratings measure an insurance company's ability to meet its obligations to contract holders and policyholders. High ratings help maintain public confidence in a company's products, facilitate marketing of products and enhance a company's competitive position.

Downgrades of the IFS ratings of our insurance companies could prevent these companies from offering, or make it more difficult for them to offer products and services or result in increased policy cancellations or termination of assumed reinsurance contracts. Moreover, a downgrade in AIG Parent's credit ratings could, under credit rating agency policies concerning the relationship between parent and subsidiary ratings, result in a downgrade of the IFS ratings of our insurance subsidiaries.

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A downgrade in our credit ratings could require us to post additional collateral and result in the termination of derivative transactions. Adverse ratings actions regarding our long-term debt ratings by the major rating agencies would require us to post additional collateral payments pursuant to, and/or permit the termination of, derivative transactions to which AIG is a party, which could adversely affect our business, our consolidated results of operations in a reporting period or our liquidity. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability to that company of financing. In the event of further downgrades of two notches to our long-term senior debt ratings, AIG would be required to post additional collateral of $267 million, and certain of AIG's counterparties would be permitted to elect early termination of contracts.

For a further discussion of our liquidity, see Item 7. MD&A Capital Resources and Liquidity.

COMPETITION

We face intense competition in each of our businesses. Our businesses operate in highly competitive environments, both domestically and overseas. Principal sources of competition are insurance companies, banks, investment banks and other non-bank financial institutions. We consider our principal competitors to be other large multi-national insurance organizations.

The insurance industry in particular is highly competitive. Within the U.S., Chartis subsidiaries compete with approximately 3,200 other stock companies, specialty insurance organizations, mutual insurance companies and other underwriting organizations. SunAmerica subsidiaries compete in the U.S. with approximately 2,000 life insurance companies and other participants in related financial services fields. Overseas, our subsidiaries compete for business with the foreign insurance operations of large U.S. insurers and with global insurance groups and local companies.

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

ADJUSTMENTS TO DEFERRED POLICY ACQUISITION COSTS AND FUTURE POLICY BENEFITS

Interest rate fluctuations, increased surrenders, investment returns and other events may require our subsidiaries to accelerate the amortization of deferred policy acquisition costs (DAC), and record additional liabilities for future policy benefits, which could adversely affect our results of operations. DAC represents the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts.

When interest rates rise or customers lose confidence in a company, policy loans, policy surrenders, withdrawals of life insurance policies, and withdrawals of annuity contracts may increase as policyholders seek to buy products with perceived higher returns or more stability, resulting in an acceleration of the amortization of DAC. To the extent such amortization exceeds surrender or other charges earned upon surrender and withdrawals of certain life insurance policies and annuity contracts, our results of operations could be negatively affected.

DAC for insurance-oriented and investment-oriented products, as well as retirement services products, is reviewed for recoverability, which involves estimating the future profitability of in-force business. This review involves significant management judgment. If future profitability is substantially lower than estimated, we could be required to accelerate DAC amortization, and such acceleration could adversely affect our results of operations.

Periodically, AIG evaluates the estimates used in establishing liabilities for Future policy benefits for life and A&H insurance contracts, which include liabilities for certain payout annuities. These estimates are evaluated against actual experience and are adjusted based on management's judgment regarding mortality, morbidity, persistency, maintenance expenses, and investment returns, including the effect of the interest rate environment and net realized capital gains (losses). If observed changes in actual experience or estimates result in projected future losses on long duration insurance contracts, AIG may be required to record additional liabilities through a charge to policyholder benefit expense, which could negatively affect our results of operations.

For further discussion of DAC and Future policy benefits, see Item 7. MD&A Critical Accounting Estimates and Notes 2, 10 and 13 to the Consolidated Financial Statements.

GUARANTEES WITHIN VARIABLE ANNUITIES

Guarantees Within Certain of Our Products May Decrease Our Earnings and Increase the Volatility of Our Results. Certain variable annuity products that we offer guarantee a certain level of benefits to the policyholder. These guarantee features include guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum account value benefits (GMAV). At December 31, 2011, our net liabilities associated with these guaranteed benefits, representing the aggregate amount of the benefits in excess of the related account values, were $1.2 billion. We use reinsurance in combination with derivative instruments to mitigate the exposure associated with these liabilities, and while we believe that these and other actions have mitigated the risks related to these guaranteed benefits, our exposure is not fully hedged, and we remain liable in the event that reinsurers or counterparties are unable or unwilling to pay. In addition, downturns in equity markets, increased equity volatility or reduced interest rates could result in an increase in the valuation of the future policy benefits or policyholder account balances, increasing the liabilities associated with the guaranteed benefits and resulting in a reduction in our net income and shareholders' equity.

REINSURANCE

Reinsurance may not be available or affordable. Our subsidiaries are major purchasers of reinsurance and utilize reinsurance as part of our overall risk management strategy. Reinsurance is an important risk management tool to manage transaction and insurance line risk retention and to mitigate losses that may arise from catastrophes. Market conditions beyond our control determine the availability and cost of the reinsurance purchased by our subsidiaries. For example, reinsurance may be more difficult or costly to obtain after a year with a large number of major catastrophes. Accordingly, we may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, in which case we would have to accept an increase in exposure risk, reduce the amount of business written by our subsidiaries or seek alternatives.

Reinsurance subjects us to the credit risk of our reinsurers and may not be adequate to protect us against losses. Although reinsurance makes the reinsurer liable to our subsidiary to the extent the risk is ceded, it does not relieve our subsidiary of the primary liability to its policyholders. Accordingly, we bear credit risk with respect to our subsidiaries' reinsurers to the extent the credit risk is not mitigated by collateral or other credit enhancements. A reinsurer's insolvency or inability or refusal to make timely payments under the terms of its agreements with our subsidiaries could have a material adverse effect on our results of operations and liquidity. For additional information on our reinsurance, see Item 7. MD&A Enterprise Risk Management Business Unit Risk Management Reinsurance.

INDEMNITY OBLIGATIONS

Claims under indemnity obligations may be material. We have provided financial guarantees and indemnities in connection with the businesses we have sold, including ALICO, AGF, AIG Star and AIG Edison. While we do not currently believe that the claims under these indemnities will be material, it is possible that significant indemnity claims could be made against us. If such a claim were successful, our results of operations, cash flows and liquidity could be materially adversely affected. See Note 16 to the Consolidated Financial Statements for more information on these financial guarantees and indemnities.

REGULATION

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act will subject us to substantial additional federal regulation, which may materially and adversely affect our businesses, results of operations, cash flows, financial condition and credit ratings. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer

Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States, was signed into law. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, an ongoing process anticipated to continue over the next few years. We cannot predict with certainty the requirements of the regulations ultimately adopted or how or whether Dodd-Frank and such regulations will affect our businesses, results of operations, cash flows or financial condition, require us to raise additional capital or result in a downgrade of our credit ratings.

Under Dodd-Frank, we may become subject to the examination, enforcement and supervisory authority of the FRB as a savings and loan holding company or a SIFI. AIG expects that when the Department of the Treasury ceases to own at least 50 percent of the outstanding shares of our Common Stock, we would be regulated by the FRB as a savings and loan holding company. In either event:

- We would become subject to the examination, enforcement and supervisory authority of the FRB. We cannot predict how the FRB would exercise general supervisory authority over us.
- The FRB would be required to impose minimum leverage and risk-based capital requirements on us not less than those applicable to insured depository institutions.
- We may be required to place our financial activities in an intermediate holding company separate from our non-financial activities (as defined for purposes of the Bank Holding Company Act) subject to restrictions on transactions between the two businesses, which could be burdensome and costly to implement.

If we are designated as a SIFI:

- We would become subject to stress tests to determine whether, on a consolidated basis, we have the capital necessary to absorb losses due to adverse economic conditions.
- We would be subject to stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress.
- We would become subject to a new early remediation regime process to be administered by the FRB.

If we are designated as a SIFI and determined to be a grave threat to U.S. financial stability:

- We would be required to maintain a debt-to-equity ratio of no more than 15:1.
- The FRB may:
  - limit our ability to merge with, acquire, consolidate with, or become affiliated with another company;
  - restrict our ability to offer specified financial products;
  - require us to terminate specified activities;

impose conditions on how we conduct our activities; or

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

See Business Regulation for further discussion of this potential regulation.

If we continue to control AIG Federal Savings Bank or another insured depository institution, we would become subject to the "Volcker Rule", which could place limits on "proprietary trading" and the sponsorship of, or investment in "covered funds." The term "covered funds" could include hedge, private equity or similar funds and, in certain cases, issuers of asset backed securities if such securities have equity-like characteristics. These prohibitions could substantially impact our investment portfolios as they are currently managed. The Volcker Rule, as proposed, contains an exemption for proprietary trading by insurance companies for their general account, but the final extent of this exemption cannot be predicted. Even if we no longer controlled an insured depository institution, we might still be subject to additional capital and quantitative limitations under the Volcker Rule as a SIFI.

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

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

We are subject to extensive regulation in the jurisdictions in which we conduct our businesses, including with respect to the pricing of policies that we write, and regulatory actions could make it challenging for us to continue to engage in business in the ordinary course. Our operations around the world are subject to regulation by different types of regulatory authorities, including insurance, securities, investment advisory, banking and thrift regulators in the United States and abroad. Regulators have the ability to take various steps to protect the businesses of the entities they regulate. These steps could include, and in the past have included:

- restricting or prohibiting the payment of dividends to AIG Parent and its subsidiaries;
- restricting or prohibiting other payments to AIG Parent and its subsidiaries;
- requesting additional capital contributions from AIG Parent;
- requesting that intercompany reinsurance reserves be covered by assets locally;
- restricting the business in which the subsidiaries may engage;
- requiring pre-approval of all proposed transactions between the regulated subsidiaries and AIG Parent or any affiliate; and
- requiring more frequent reporting, including with respect to capital and liquidity positions.

In addition, the premium rates that we are able to charge and the profits that we are able to obtain are affected by the actions of state and foreign insurance departments that regulate our businesses. In addition to this regulation, our insurance subsidiaries are subject to laws that require insurers to participate in assigned risk plans, or to offer coverage to all consumers or at prices that we might not otherwise offer. Any of these actions could have an adverse effect on our consolidated results of operations.

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

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

We also have implemented reinsurance and capital management actions to mitigate the capital impact of Regulation XXX and Guideline AXXX, including the use of letters of credit to support the reinsurance provided by our captive reinsurance subsidiaries. We focus on identifying cost-effective opportunities to manage our intercompany reinsurance transactions, particularly with respect to certain redundant statutory reserve requirements on term insurance and universal life with secondary guarantees (Regulation XXX and Guideline AXXX reserves). For this purpose, we had a $585 million syndicated letter of credit facility and $215 million of letters of credit on a bilateral basis outstanding at December 31, 2011, all of which relate to intercompany life reinsurance transactions. All of these letters of credit are due to mature on December 31, 2015. However, such actions may not be sufficient to offset regulatory, rating agency or other requirements. In that case, we could be required to increase statutory reserves or incur higher operating and/or tax costs.

We also cannot provide assurance that we will be able to continue to implement actions to mitigate the impact of Regulation XXX or Guideline AXXX on future sales of term and universal life insurance products. If we are unable to continue to implement those actions, we may incur higher operating costs and lower returns on products sold than we currently anticipate or reduce our sales of these products.

New regulations promulgated from time to time may affect our operations, financial condition and ability to compete effectively. Legislators and regulators may periodically consider and put forward various proposals that may affect the profitability of certain of our businesses or even our ability to conduct certain businesses at all, including proposals relating to restrictions on the type of activities in which financial institutions are permitted to engage and the size of financial institutions, and proposals to impose additional taxes on a limited subset of financial institutions and insurance companies (either based on size, activities, geography, government support or other criteria). It is uncertain whether and how these and other such proposals would apply to us or our competitors or how they could impact our consolidated results of operations, financial condition and ability to compete effectively.

CHANGE IN CONTROL

Our ability to utilize tax losses and credits carryforwards to offset future taxable income may be significantly limited if we experience an "ownership change" under the Internal Revenue Code. As of December 31, 2011, we had a U.S. federal net operating loss carryforward of approximately $45.3 billion, $21.3 billion in capital loss carryforwards and $4.6 billion in foreign tax credits (Tax Losses and credits carryforwards). Our ability to utilize such tax attributes to offset future taxable income may be significantly limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code of 1986, as amended (the Code). In general, an ownership change will occur when the percentage of AIG Parent's ownership (by value) of one or more "5-percent shareholders" (as defined in the Code) has increased by more than 50 percent over the lowest percentage owned by such shareholders at any time during the prior three years (calculated on a rolling basis). An entity that experiences an ownership change generally will be subject to an annual limitation on its pre-ownership change tax losses and credits carryforwards equal to the equity value of the corporation immediately before the ownership change, multiplied by the long-term, tax-exempt rate posted monthly by the IRS (subject to certain adjustments). The annual limitation would be increased each year to the extent that there is an unused limitation in a prior year. The limitation on our ability to utilize tax losses and credits carryforwards arising from an ownership change under Section 382 would depend on the value of our equity at the time of any ownership change.

While the Department of the Treasury owns more than 50 percent of AIG Common Stock, under guidance issued by the Internal Revenue Service, we will not be treated as having experienced an ownership change. However, once the Department of the Treasury's ownership of outstanding AIG Common Stock falls below

50 percent, it is possible for us to experience an ownership change as a result of purchases of AIG Common Stock by "5-percent shareholders". For the purpose of determining whether there has been an "ownership change", the change in ownership as a result of purchases by "5-percent shareholders" will be aggregated with certain changes in ownership that occurred over the three-year period ending on the date of such purchases, including, for example, the sale of AIG Common Stock that was issued in exchange for the shares of AIG's Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (the Series C Preferred Stock), but excluding the issuance of the AIG Common Stock that was issued in exchange for the shares of AIG's Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series E Preferred Stock), and the shares of AIG's Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series F Preferred Stock), both of which were issued under the Emergency Economic Stabilization Act of 2008 and to which Notice 2010-2 applies. Any repurchases of AIG Common Stock by AIG will be taken into account in determining whether there has been an "ownership change". If we were to experience an "ownership change", it is possible that a significant portion of our tax losses and credits carryforwards could expire before we would be able to use them to offset future taxable income.

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

FOREIGN OPERATIONS

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

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

LEGAL PROCEEDINGS

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

USE OF ESTIMATES

If actual experience differs from management's estimates used in the preparation of financial statements, our consolidated results of operations or financial condition could be adversely affected. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the application of accounting policies that often involve a significant degree of judgment. We consider our accounting policies that are most dependent on the application of estimates and assumptions, and therefore viewed as critical accounting estimates, are those described in Item 7. MD&A Critical Accounting Estimates. These accounting estimates require the use of assumptions, some of which are highly uncertain at the time of estimation. These estimates, by their nature, are based on judgment and current facts and circumstances. Therefore, actual results could differ from these estimates, possibly in the near term, and could have a material effect on the consolidated financial statements.

AIRCRAFT LEASING BUSINESS

Our aircraft leasing business depends on lease revenues and exposes us to the risk of lessee non-performance. Our aircraft leasing business depends on the ability of our customers to meet their obligations to us under their leases; if their ability materially decreases, it may negatively affect our business, results of operations and cash flows.

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

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

LIQUIDITY

If our internal sources of liquidity are insufficient to meet our needs, we may become dependent on third-party financing, external capital markets or other sources of liquidity, which may not be available or could be prohibitively expensive. We need liquidity to pay our operating expenses, interest on our debt, maturing debt obligations and to meet any statutory capital requirements of our subsidiaries. If we have insufficient liquidity to meet our needs, we may be required to raise additional capital or obtain other sources of commercial funding. The availability of any additional financing depends on a variety of factors, including, but not limited to, general market conditions, the volume of trading activities, the overall availability of credit, regulatory actions, our credit ratings and credit capacity, as well as the possibility that customers, lenders or investors could develop a negative perception of our long- or short-term financial prospects. Disruptions, volatility and uncertainty in the financial markets, to the extent they persist or recur, may also limit our ability to access external capital markets at times and on terms favorable to us and to meet our capital and liquidity needs. Furthermore, if our internal sources of liquidity prove to be insufficient, we may be unable to obtain additional financing on favorable terms, if at all. For a further discussion of liquidity, see Item 7. MD&A Capital Resources and Liquidity.

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

AIG Parent's ability to support our subsidiaries is limited. Historically, AIG Parent has provided capital and liquidity to our subsidiaries to maintain regulatory capital ratios, comply with rating agency requirements and meet unexpected cash flow obligations, in some cases under support or capital maintenance agreements. If AIG Parent is unable to provide support to a subsidiary having an immediate capital or liquidity need, the subsidiary could become insolvent or, in the case of an insurance subsidiary or other regulated entity, could be seized by its regulator. In the event of a catastrophe, reserve strengthening or other event, AIG Parent may be required to provide capital to one or more of our regulated subsidiaries. AIG Parent has entered into capital maintenance agreements with certain of our U.S. insurance subsidiaries that will require it to contribute capital if specific risk-based capital (RBC) thresholds are triggered.

Certain of the investments held by our subsidiaries are illiquid and/or are difficult to sell, or to sell in significant amounts or at acceptable prices, to generate cash to meet their needs. Our subsidiaries' investments in certain securities, including certain fixed income securities and certain structured securities, private equity securities, private equity funds and hedge funds, mortgage loans, flight equipment, finance receivables and real estate, which had a collective fair value of $96 billion at December 31, 2011, are illiquid or may not be disposed of quickly. Further, we have a significant remaining stake in AIA, one-half of which is subject to restrictions on transfer and hedging. In addition, the steep decline in the U.S. real estate markets and tight credit markets have materially adversely affected the liquidity of our other securities portfolios, including our residential and commercial mortgage-related securities and investment portfolios. In the event additional liquidity is required by one or more of our subsidiaries and AIG Parent is unable to provide liquidity, it may be difficult to generate additional liquidity by selling, pledging or otherwise monetizing the less liquid investments described above.

SPECIAL PURPOSE VEHICLE INTERCOMPANY LOANS AND PLEDGE OF DESIGNATED ENTITY

We have pledged equity interests in certain of our businesses and other assets to secure intercompany loans made in connection with the Recapitalization and granted other control rights with respect to certain businesses and assets. We have pledged equity interests in certain of our businesses and other assets as security for the repayment of the intercompany loans extended to AIG Parent by the special purpose vehicles that held the proceeds of the AIA initial public offering and the ALICO sale (the SPVs, and such loans, the SPV Intercompany Loans). Although the loan from the ALICO SPV was repaid in full in 2011, the loan from the AIA SPV, which remains outstanding, is secured by the assets that continue to be held by the AIA SPV, including the ordinary shares of AIA and our equity interest in ILFC (the Designated Entity). If we are unable to satisfy our obligations under the AIA SPV Intercompany Loan, the secured parties may have the right to foreclose upon and sell the assets that secure this loan, which could have a material adverse effect on the operations of the Designated Entity and could adversely affect the value of the Designated Entity.

Furthermore, so long as the Department of the Treasury holds the preferred interests in the AIA SPV (the AIA SPV Preferred Interests), the Department of the Treasury will have the right, subject to existing contractual restrictions, to require us to dispose of the remaining AIA ordinary shares held by the AIA SPV to the extent necessary to fully repay the liquidation preference on the Department of the Treasury's AIA SPV Preferred Interests. In addition, the consent of the Department of the Treasury, so long as it holds AIA SPV Preferred Interests or the preferred interests in the ALICO SPV (together, the SPV Preferred Interests), will also be required for us to take specified significant actions with respect to the Designated Entity, including initial public offerings, sales of the business and significant acquisitions or dispositions and incurrence of indebtedness above specified levels. If any SPV Preferred Interests are outstanding on May 1, 2013, the Department of the Treasury will have the right to compel the sale of all or a portion of the Designated Entity on terms that it will determine.

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These rights could have a material adverse effect on the operations of the Designated Entity and could adversely affect the value of the Designated Entity.

CONTROLLING SHAREHOLDER

As a result of the issuance of the shares of AIG Common Stock to the Department of the Treasury in connection with the Recapitalization, the Department of the Treasury is AIG Parent's controlling shareholder. As of January 31, 2012, the Department of the Treasury owns approximately 77 percent of the outstanding shares of AIG Common Stock. The Department of the Treasury is able, to the extent permitted by law, to control a vote of AIG shareholders on substantially all matters, including:

- approval of mergers or other business combinations;
- a sale of all or substantially all of our assets;
- amendments to AIG Parent's restated certificate of incorporation; and
- other matters that might be favorable to the Department of the Treasury, but not to our other shareholders.

Moreover, the Department of the Treasury's ability to cause or prevent a change in control of AIG could also have an adverse effect on the market price of AIG Common Stock. The Department of the Treasury may also, subject to applicable securities laws, transfer all, or a portion of, the AIG Common Stock to another person or entity and, in the event of such a transfer, that person or entity could become our controlling shareholder. The Department of the Treasury's rights under a registration rights agreement executed in connection with the Recapitalization may be assigned to any person purchasing over $500 million of AIG Common Stock.

We granted the Department of the Treasury certain registration rights and, subject to certain exceptions, the ability to control the terms, conditions and pricing of any offering in which it participates, including any primary offering by us. We have granted the Department of the Treasury registration rights with respect to the shares of AIG Common Stock issued in connection with the Recapitalization, including:

- the right to participate in any registered offering of AIG Common Stock by us;
- the right to demand no more than twice in any 12-month period that we effect a registered marketed offering of our shares;
- the right to engage in at-the-market offerings; and
- subject to certain exceptions, the right to approve the terms, conditions and pricing of any registered offering in which it participates until its ownership falls below 33 percent of our voting securities.

Possible future sales of AIG Common Stock by the Department of the Treasury could adversely affect the market for AIG Common Stock. We have granted the Department of the Treasury the registration rights described above. Although we can make no prediction as to the effect, if any, that sales by the Department of the Treasury would have on the market price of AIG Common Stock, sales of substantial amounts of AIG Common Stock, or the perception that such sales could occur, could adversely affect the market price of AIG Common Stock.

EMPLOYEES

Mr. Benmosche may be unable to continue to provide services to AIG due to his health. Mr. Robert Benmosche, the President and Chief Executive Officer of AIG, was diagnosed with cancer and has been undergoing treatment for his disease. He continues to fulfill all of his responsibilities and has stated his desire to continue in such roles beyond 2012. However, there can be no assurance that his condition will not change and prevent him from continuing to perform these roles.

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 and in our agreement with the Department of the Treasury may adversely affect our ability to attract talent and retain and motivate our highest performing employees. The American Recovery and Reinvestment Act of 2009 contains provisions which, as implemented by the Department of the Treasury in its Interim Final Rule, restrict bonus and other incentive compensation payable to certain AIG employees. Historically, we have embraced a pay-for-performance philosophy. Based on the limitations placed on incentive compensation, it is unclear whether, for the foreseeable future, we will be able to create a compensation structure that permits us to attract talent and retain and motivate our most senior and most highly compensated employees and other high performing employees who become subject to such limitations. The restrictions on our ability to attract talent and retain and motivate our highest performing employees may affect our ability to strengthen our businesses and prepare and make required filings in a timely manner with the SEC and other federal, state and foreign regulators.

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

ELECTRONIC DATA SYSTEMS AND HANDLING OF CONFIDENTIAL INFORMATION

If we are unable to maintain the availability of our electronic data systems and safeguard the security of our data, our ability to conduct business may be compromised, which could adversely affect our consolidated financial condition or results of operations. We use computer systems to store, retrieve, evaluate and utilize customer, employee, and company data and information. Some of these systems in turn, rely upon third-party systems. Our business is highly dependent on our ability to access these systems to perform necessary business functions, including providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a natural disaster, a computer virus, a terrorist attack or other disruption inside or outside the U.S., our systems may be inaccessible to our employees, customers or business partners for an extended period of time, and our employees may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems could also be subject to unauthorized access, such as physical or electronic break-ins or unauthorized tampering. AIG maintains cyber risk insurance, but this insurance may not cover all costs associated with the consequences of personal, confidential or proprietary information being compromised. In some cases, such unauthorized access may not be immediately detected. This may impede or interrupt our business operations and could adversely affect our consolidated financial condition or results of operations.

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

REGULATORY CAPITAL CREDIT DEFAULT SWAP PORTFOLIO

A deterioration in the credit markets may cause us to recognize unrealized market valuation losses which could have an adverse effect on our consolidated financial condition, consolidated results of operations or liquidity. Moreover, depending on how and when the Basel I capital standards are phased out, the period of time that AIGFP remains at risk for such deterioration could be longer than anticipated by AIGFP. A total of $6.4 billion in net notional amount of the super senior credit default swap (CDS) portfolio of AIGFP as of December 31, 2011, represented derivatives written for financial institutions, principally in Europe against European corporate loans and residential mortgage loans, primarily for the purpose of providing regulatory capital relief rather than for arbitrage purposes. These portfolios have no direct exposure to any obligors in the five countries of the Euro-zone periphery (Spain, Italy, Ireland, Greece and Portugal). The regulatory benefit of these transactions for AIGFP's financial institution counterparties was generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties from these transactions and thus may impact the period of time that such counterparties are expected to hold the positions. AIGFP continues to reassess the expected maturity of this portfolio. As of December 31, 2011, AIGFP estimated that the weighted average expected maturity of the portfolio was 0.86 years.

Given the current performance of the underlying portfolios, the level of subordination of credit protection written by AIGFP and AIGFP's own assessment of the credit quality of the underlying portfolios, as well as the risk mitigants inherent in the transaction structures, AIGFP, after taking into consideration weakening economic conditions in Europe, does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory capital relief. AIGFP will continue to assess the valuation of this portfolio and monitor developments in the marketplace. Depending on how and when the Basel I regulatory requirements are phased out, we could also remain at risk for a longer period of time than currently anticipated.

LONG-TERM ASPIRATIONAL GOALS

AIG's ability to achieve its long-term aspirational goals with respect to return on equity (ROE) and earnings per share (EPS) and other long-term aspirational goals are based on significant assumptions, and AIG's actual results may differ, possibly materially and adversely, from these goals. In setting its long-term aspirational goals for ROE and EPS, described in Item 2. MD&A Long-Term Aspirational Goals in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2011, AIG made significant assumptions that include, among other things, the general conditions of markets in which it operates, revenues and combined ratios of its subsidiaries, investment yields, subsidiaries' capacity to distribute dividends to AIG Parent, AIG's ability to apply deployable capital to share repurchases, dividend payments, acquisitions or organic growth, AIG's ability to maintain financial leverage commensurate with its current credit ratings, the exclusion of the impact on shareholders' equity of the reversal of the tax valuation allowance, the effectiveness of AIG's cost rationalization measures, the approval of planned actions (including with respect to any share repurchases, dividend payments or acquisitions) by AIG's regulators, the overall credit rating implications of AIG's proposed strategic actions and general financial market and interest rate conditions. These assumptions are not historical facts but instead represent only AIG's expectations regarding future events, many of which, by their nature, are inherently subject to significant uncertainties and contingencies and are outside AIG's control. It is very likely that one or more of the assumptions will not be met or that actual results will deviate materially from what is assumed. While AIG remains committed to its long-term aspirational goals, AIG's actual results are likely to differ from these aspirational goals and the difference may be material and adverse.

The aspirational goals and their underlying assumptions are forward-looking statements. AIG strongly cautions its shareholders and other investors not to place undue reliance on any of these assumptions or aspirational goals. AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any assumptions, goals, projections or other related statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. See Item 7. MD&A Cautionary Statement Regarding Forward Looking Information for additional information regarding the forward-looking statements.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

AIG and its subsidiaries operate from over 400 offices in the United States and approximately 700 offices in over 75 foreign countries. The following offices are located in buildings owned by AIG and its subsidiaries:

Greensboro and Winston-Salem, North Carolina	Nashville, Tennessee
Amarillo, Ft. Worth and Houston, Texas	Stevens Point, Wisconsin
San Juan, Puerto Rico	175 Water Street in New York, New York
Livingston, New Jersey	Stowe, Vermont
Wilmington, Delaware	

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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Part II

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

AIG's common stock, par value $2.50 per share (AIG Common Stock), is listed on the New York Stock Exchange, as well as on the Tokyo Stock Exchange. The approximate number of record holders of AIG Common Stock as of January 31, 2012 was 44,938.

The following table presents the high and low closing sale prices on the New York Stock Exchange Composite Tape and the dividends paid per share of AIG Common Stock for each quarter of 2011 and 2010.

	2011			2010		
	High	Low	Dividends Paid	High	Low	Dividends Paid
First quarter	**$ 61.18***	**$ 34.95**	**$ -**	$ 36.24	$ 22.16	$ -
Second quarter	**35.00**	**27.23**	**-**	44.51	34.05	-
Third quarter	**30.21**	**21.61**	**-**	41.64	33.10	-
Fourth quarter	**26.34**	**20.07**	**-**	59.38	38.86	-

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

Pursuant to the terms of the AIG Series G Cumulative Mandatory Convertible Preferred Stock, par value $5.00 per share (the Series G Preferred Stock) AIG was unable to pay dividends while the Series G Preferred Stock was outstanding. The Series G Preferred Stock was cancelled in connection with AIG's public offering of AIG Common Stock in May 2011. After the cancellation of the Series G Preferred Stock, there are no contractual restrictions on AIG's ability to pay dividends.

Any payment of dividends will need the approval of AIG's Board of Directors, in its discretion, from funds legally available therefor. AIG's Board of Directors may consider AIG's financial position, the performance of its businesses, its consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities and other factors in determining the payment of dividends, if any. AIG may become subject to restrictions on the payment of dividends if it is designated as a non-bank SIFI or considered a savings and loan holding company. See Item 1. Business Regulation for further discussion of this potential regulation.

In addition, AIG was previously unable to pay dividends under the terms of other series of AIG preferred stock that were outstanding from November 2008 through January 14, 2011.

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

REPURCHASES OF EQUITY SECURITIES

In November 2011, AIG's Board of Directors authorized the repurchase of shares of AIG Common Stock with an aggregate purchase amount of up to $1 billion from time to time in the open market, through derivative or automatic purchase contracts or otherwise. The timing of such purchases will depend on market conditions, AIG's financial condition, results of operations, liquidity, rating agency considerations and other factors. This authorization replaces all prior AIG Common Stock repurchase authorizations.

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The following table summarizes AIG's stock repurchases as part of its publicly announced share repurchase program for the three-month period ended December 31, 2011:

Period	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans (in millions)
October 1, 2011 - October 31, 2011	-	$ -	-	$ 1,000
November 1, 2011 - November 30, 2011	2,563,531	22.83	2,563,531	941
December 1, 2011 - December 31, 2011	510,500	22.35	510,500	930
Total	3,074,031	$ 22.75	3,074,031	$ 930

EQUITY COMPENSATION PLANS

AIG's table of equity compensation plans previously approved by security holders and equity compensation plans not previously approved by security holders will be included in the definitive proxy statement for AIG's 2012 Annual Meeting of Shareholders, which will be filed with the SEC no later than 120 days after the close of AIG's fiscal year pursuant to Regulation 14A.

PERFORMANCE GRAPH

The following Performance Graph compares the cumulative total shareholder return on AIG Common Stock for a five-year period (December 31, 2006 to December 31, 2011) with the cumulative total return of the S&P's 500 stock index (which includes AIG) and a peer group of companies (the New Peer Group) consisting of ten insurance companies to which AIG compares its business and operations:

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

The Performance Graph also compares the cumulative total shareholder return on AIG Common Stock to the return of a group of companies (the Old Peer Group) consisting of nine insurance companies to which AIG compared itself in its Annual Report on Form 10-K for the year ended December 31, 2010:

- ACE Limited
- Aflac Incorporated
- The Chubb Corporation
- Hartford Financial Services Group, Inc.
- Lincoln National Corporation
- MetLife, Inc.
- Prudential Financial, Inc.
- The Travelers Companies, Inc., and
- XL Capital Ltd.

Allianz Group and Zurich Financial Services Group were added to, and Aflac Incorporated was excluded from, the New Peer Group because AIG believes the changes result in a peer group that is more comparable to AIG's overall business and operations following AIG's sale of its foreign life insurance operations (i.e., American Life Insurance Company, Nan Shan Life Insurance Company, Ltd., AIG Star Life Insurance Co., Ltd. and AIG Edison Life Insurance Company) in 2010 and 2011 and the sale of a majority of AIA Group Limited in 2010.

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FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURNS
Value of $100 Invested on December 31, 2006

	As of December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2011**
AIG	$ 100.00	$ 82.27	$ 2.39	$ 2.28	$ 4.39	$ 2.15
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76
New Peer Group	100.00	102.70	56.61	67.73	78.05	69.89
Old Peer Group	100.00	104.45	60.44	70.53	86.00	76.95

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ITEM 6. SELECTED FINANCIAL DATA

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

Years Ended December 31, *(in millions, except per share data)*	**2011**	**2010**	**2009**	**2008**	**2007**
Revenues:					
Premiums	**$ 38,990**	$ 45,319	$ 48,583	$ 60,147	$ 58,575
Policy fees	**2,705**	2,710	2,656	2,990	3,006
Net investment income	**14,755**	20,934	18,992	10,453	23,933
Net realized capital gains (losses)	**521**	(175)	(5,210)	(46,794)	(3,248)
Aircraft leasing revenue	**4,508**	4,749	4,967	4,830	4,431
Other income	**2,758**	3,989	5,459	(38,293)	(5,180)
Total revenues	**64,237**	77,526	75,447	(6,667)	81,517
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**33,449**	41,394	45,311	45,447	44,995
Interest credited to policyholder account balances	**4,446**	4,480	4,704	5,589	5,933
Amortization of deferred acquisition costs	**8,019**	9,134	9,442	9,439	9,652
Other acquisition and insurance expenses	**6,091**	6,775	6,818	11,571	5,992
Interest expense	**3,871**	7,981	14,358	15,997	3,483
Aircraft leasing expenses	**3,974**	4,050	2,385	2,137	1,880
Net loss on extinguishment of debt	**2,908**	104	-	-	-
Net (gain) loss on sale of properties and divested businesses	**74**	(17,767)	1,271	-	-
Other expenses	**2,470**	3,439	5,465	6,182	4,848
Total benefits, claims and expenses	**65,302**	59,590	89,754	96,362	76,783
Income (loss) from continuing operations before income tax expense (benefit)	**(1,065)**	17,936	(14,307)	(103,029)	4,734
Income tax expense (benefit)	**(18,036)**	5,859	(1,489)	(9,683)	125
Income (loss) from continuing operations	**16,971**	12,077	(12,818)	(93,346)	4,609
Income (loss) from discontinued operations, net of tax	**1,535**	(2,064)	505	(7,041)	2,879
Net income (loss)	**18,506**	10,013	(12,313)	(100,387)	7,488
Net income (loss) attributable to AIG	**17,798**	7,786	(10,949)	(99,289)	6,200
Income (loss) per common share attributable to AIG common shareholders					
Basic					
Income (loss) from continuing operations	**8.60**	14.75	(93.69)	(704.26)	26.32
Income (loss) from discontinued operations	**0.84**	(3.15)	3.21	(52.59)	21.66
Net income (loss) attributable to AIG	**9.44**	11.60	(90.48)	(756.85)	47.98
Diluted					
Income (loss) from continuing operations	**8.60**	14.75	(93.69)	(704.26)	26.18
Income (loss) from discontinued operations	**0.84**	(3.15)	3.21	(52.59)	21.55
Net income (loss) attributable to AIG	**9.44**	11.60	(90.48)	(756.85)	47.73
Dividends declared per common share	**-**	-	-	8.40	15.40
Year-end balance sheet data:					
Total investments	**410,438**	410,412	601,165	636,912	829,468
Total assets	**555,773**	683,443	847,585	860,418	1,048,361
Long-term debt	**75,253**	106,461	136,733	177,485	162,935
Total liabilities	**441,444**	569,770	748,550	797,692	942,038
Total AIG shareholders' equity	**104,951**	85,319	69,824	52,710	95,801

Total equity	**105,806**	113,239	98,076	60,805	104,273
Other data (from continuing operations):					
Other-than-temporary impairments	**1,280**	3,039	6,696	41,867	4,212
Goodwill impairment charges	**-**	-	693	3,744	-
Adjustment to federal and foreign deferred tax valuation allowance	**(16,561)**	1,486	3,137	20,121	212
Amortization of prepaid commitment fee	**49**	3,471	8,359	9,279	-
Catastrophe-related losses	**$ 3,307**	$ 1,076	$ 53	$ 1,840	$ 276

Items affecting comparability between periods include:

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

- In 2008, AIG also recognized unrealized market valuation losses representing the change in fair value of its super senior credit default swap portfolio, established a deferred tax valuation allowance and experienced an unprecedented strain on liquidity. This strain led to several transactions and relationships with the Federal Reserve Bank of New York (FRBNY) and the Department of the Treasury. See Note 1 to the Consolidated Financial Statements for further discussion of these transactions and relationships.

- The decline in interest expense in 2010 was primarily due to a reduced weighted average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset related to the partial repayment of the credit facility provided by the FRBNY. On January 14, 2011, AIG repaid the remaining $20.7 billion and terminated this facility, resulting in a net $3.3 billion pre-tax charge in the first quarter of 2011, primarily representing the accelerated amortization of the remaining prepaid commitment fee asset included in Net loss on extinguishment of debt. See Note 1 to the Consolidated Financial Statements for further discussion of the Recapitalization.

- AIG executed multiple asset dispositions in 2011 and 2010, as further discussed in Note 4 to the Consolidated Financial Statements, which included the completion of an initial public offering of AIA in 2010 for which AIG recognized a $16.3 billion gain.

- As further discussed in Note 22 to the Consolidated Financial Statements, AIG concluded that $16.6 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statement of Operations in 2011.

- As a result of the closing of the Recapitalization on January 14, 2011, the SPV Preferred Interests held by the Department of the Treasury are not considered permanent equity on AIG's Consolidated Balance Sheet, and were classified as redeemable non-controlling interests.

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

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

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

- the timing of the disposition of the ownership position of the United States Department of the Treasury (Department of the Treasury) in AIG;
- the timing and method of repayment of the preferred interests in AIA Aurora LLC held by the Department of the Treasury;
- the fair value of AIA and cash flow projections for AIG's Maiden Lane Interests;
- the monetization of AIG's interests in International Lease Finance Corporation (ILFC);
- AIG's exposures to subprime mortgages, monoline insurers, the residential and commercial real estate markets, state and municipal bond issuers and sovereign bond issuers;
- AIG's exposure to European governments and European financial institutions;
- AIG's strategy for risk management;
- AIG's ability to retain and motivate its employees;
- AIG's generation of deployable capital;
- AIG's return on equity and earnings per share long-term aspirational goals;
- AIG's strategy to grow net investment income, efficiently manage capital and reduce expenses;
- AIG's strategy for customer retention, growth, product development, market position, financial results and reserves; and
- The revenues and combined ratios of AIG's subsidiaries.

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

- actions by credit rating agencies;
- changes in market conditions;
- the occurrence of catastrophic events;
- significant legal proceedings;
- concentrations in AIG's investment portfolios, including its municipal bond portfolio;
- judgments concerning casualty insurance underwriting and reserves;
- judgments concerning the recognition of deferred tax assets;
- judgments concerning deferred policy acquisition costs (DAC) recoverability;

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judgments concerning the recoverability of aircraft values in ILFC's fleet; and

such other factors as are discussed throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and in Item 1A. Risk Factors of this Annual Report on Form 10-K.

AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projections, goals, assumptions or other statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise. Unless the context otherwise requires, the terms AIG, the Company, we, us, and our mean AIG and its consolidated subsidiaries.

USE OF NON-GAAP MEASURES

Throughout this MD&A, AIG presents its operations in the way it believes will be most meaningful and representative of ongoing operations as well as most transparent. Certain of the measurements used by AIG management are "non-GAAP financial measures" under Securities and Exchange Commission (SEC) rules and regulations.

AIG analyzes the operating performance of Chartis using underwriting profit (loss). Operating income (loss), which is income (loss) before net realized capital gains (losses) and related deferred policy acquisition costs (DAC) and sales inducement asset (SIA) amortization, is utilized to report results for SunAmerica Financial Group (SunAmerica) operations. Management believes that these measures enhance the understanding of the underlying profitability of the ongoing operations of these businesses and allow for more meaningful comparisons with AIG's insurance competitors. Reconciliations of these measures to the most directly comparable measurement derived from accounting principles generally accepted in the United States (GAAP), pre-tax income, are included in Results of Operations.

EXECUTIVE OVERVIEW

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

FINANCIAL OVERVIEW

As further discussed in Note 22 to the Consolidated Financial Statements, AIG concluded that $16.6 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group should be released through the Consolidated Statement of Operations in 2011.

AIG's loss from continuing operations before income taxes represented a $19.0 billion decrease compared to its 2010 income and reflected the following:

a $3.3 billion net loss on extinguishment of debt recorded in the first quarter of 2011, primarily consisting of the accelerated amortization of the prepaid commitment fee asset resulting from the termination of the Credit Agreement, dated as of September 22, 2008 (as amended, the Federal Reserve Bank of New York (FRBNY) Credit Facility) on January 14, 2011, partially offset by a $484 million gain on extinguishment of debt in the fourth quarter of 2011 related to the exchange of junior subordinated debt;

significant catastrophe losses for Chartis totaling $3.3 billion, including losses from Thailand floods in the fourth quarter of 2011, Hurricane Irene in the third quarter of 2011, the U.S. tornadoes in the second quarter of 2011 and the Great Tohoku Earthquake & Tsunami (the Tohoku catastrophe) in the first quarter of 2011, compared to catastrophe losses of $1.1 billion in 2010;

losses for Aircraft Leasing of $1.7 billion due to impairment charges, fair value adjustments and lease-related charges on aircraft in both 2011 and 2010;

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

- 2010 included a gain of $17.8 billion on sales of divested businesses, primarily consisting of a gain of $16.3 billion from the completion of the initial public offering and listing of AIA Group Limited (AIA) ordinary shares on the Hong Kong Stock Exchange on October 29, 2010, as well as a gain of $1.3 billion recognized in 2010 related to the sale of AIG's headquarters building in Tokyo in 2009 which gain had been deferred until the expiration of certain lease provisions; and

- income in 2010 from divested businesses prior to their sale totaling $2.5 billion, primarily representing AIA.

Partially offsetting these declines were;

- a reduction in prior year adverse loss development in 2011 compared to 2010;

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

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

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

In 2011, AIG recorded income from discontinued operations net of taxes of $1.5 billion, which included a pre-tax gain of $2.0 billion recorded in the first quarter of 2011 on the sale of AIG Star Life Insurance Co., Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison) compared to a net loss of $2.1 billion in 2010, which included goodwill impairment charges of $4.6 billion associated with the sale of American Life Insurance Company (ALICO), AIG Star and AIG Edison.

See Results of Operations herein for additional discussion of our results.

RESTRUCTURING ACTIVITY OVERVIEW

AIG substantially completed its recapitalization plan (the Recapitalization) and its asset disposition plan with the following significant milestones in 2011:

- On January 14, 2011 (the Closing), AIG completed the Recapitalization, which included:

  - repaying the $20.7 billion outstanding balance and terminating the FRBNY Credit Facility;

  - applying proceeds from the AIA initial public offering and the ALICO sale to partially pay down the preferred interests in the special purpose vehicles that held AIA and ALICO (the AIA SPV and the ALICO SPV, respectively, and collectively, the SPVs, and such preferred interests, the SPV Preferred Interests). As part of the Recapitalization, AIG used $6.1 billion of the cash proceeds from the sale of ALICO to pay down a portion of the liquidation preference of the SPV Preferred Interests; and exchanging preferred stock held by the Department of the Treasury and the AIG Credit Facility Trust (the Trust) for AIG common stock, par value $2.50 per share (AIG Common Stock).

The SPV Preferred Interests were further reduced during 2011 by $11.5 billion using proceeds from the sale of AIG Star, AIG Edison, Nan Shan Life Insurance Company, Ltd. (Nan Shan) and the MetLife, Inc. (MetLife) securities received in the sale of ALICO. In addition, on November 1, 2011, in accordance with the terms of the MetLife escrow agreement from the sale of ALICO, approximately $918 million was released to AIG. These proceeds, together with an additional $53 million, were applied to pay down a portion of the liquidation preference of the Department of the Treasury's AIA SPV Preferred Interests. See Note 16 to the Consolidated Financial Statements for further discussion.

On September 2, 2011, ILFC Holdings, Inc. (ILFC Holdings), an indirect wholly-owned subsidiary of AIG, which is intended to become a holding company for ILFC, filed a registration statement on Form S-1 with the SEC for a proposed initial public offering. All proceeds received by AIG will be used to pay down a portion of the liquidation preference of the Department of the Treasury's AIA SPV Preferred Interests.

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See Capital Resources and Liquidity herein and Notes 1, 4, and 17 to the Consolidated Financial Statements for additional information.

OTHER CAPITAL RESOURCES AND LIQUIDITY DEVELOPMENTS

Other significant capital resources and liquidity developments in 2011 include:

- On May 27, 2011, AIG and the Department of the Treasury, as the selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately $2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of shares of AIG Common Stock by the Department of the Treasury.

- On September 13, 2011, AIG received approximately $2.0 billion in proceeds from the issuance of senior unsecured notes. AIG is using the proceeds from the sale of these notes to pay maturing notes that were issued by AIG to fund the Matched Investment Program (MIP).

- On October 12, 2011, the previously outstanding AIG 364-Day Syndicated Facility, AIG 3-Year Syndicated Facility and Chartis letter of credit facility were terminated and AIG entered into a $1.5 billion 364-Day Syndicated Facility and a $3.0 billion 4-Year Syndicated Facility. The new 4-Year Syndicated Facility provides for $3.0 billion of revolving loans, which includes a $1.5 billion letter of credit sublimit.

- In November 2011, AIG exchanged $2.4 billion of its outstanding Junior Subordinated Debentures for $1.8 billion senior notes pursuant to an exchange offer. The exchange resulted in a pre-tax gain on extinguishment of debt of approximately $484 million, which is reflected in Net loss on extinguishment of debt in the Consolidated Statement of Operations, and a deferred gain of $65 million reflected in Other long-term debt in the Consolidated Balance Sheet, which will be amortized as a reduction to future interest expense.

- ILFC executed the following transactions in 2011:

  - an unsecured $2.0 billion three-year revolving credit facility;

  - a secured $1.5 billion term loan;

  - the issuance of $2.9 billion aggregate principal amount of senior notes; and

  - the purchase of approximately $1.67 billion aggregate principal amount of notes for total cash consideration, including accrued interest, of approximately $1.75 billion. ILFC recorded losses of $61 million on the extinguishment of debt;

See Capital Resources and Liquidity herein and Notes 1, 4, 15 and 17 to the Consolidated Financial Statements for additional information on these transactions.

OUTLOOK

Priorities for 2012

AIG remains committed to its long-term aspirational goals and is focused on the following priorities for 2012:

- continuing to strengthen and grow AIG's core businesses;
- developing and implementing plans to maximize the value of resources available for repayment of the AIA SPV Preferred Interests held by the Department of the Treasury;
- implementing a strategic alternative for ILFC through an initial public offering or sale;
- managing its capital and interest expense more efficiently;
- taking appropriate actions to prepare for scenarios under which the Board of Governors of the Federal Reserve System (the FRB) would become AIG's regulator;

continuing to build, strengthen and streamline the financial and operating systems infrastructure and control environment throughout the organization, particularly in financial reporting, financial operations and human resources; and

restructuring AIG's operations consistent with its smaller size and plans to increase its competitiveness.

Deferred Policy Acquisition Costs

In October 2010, the Financial Accounting Standards Board (FASB) issued an accounting standard update that amends the accounting for deferring costs incurred by insurance companies in connection with acquiring or renewing insurance contracts to limit deferral to only costs that are incremental and directly related to the successful acquisition of new business or renewal of existing business.

As a result, AIG expects a pre-tax reduction of Deferred policy acquisition costs at January 1, 2012 of approximately $4.9 billion and an after-tax decrease in AIG shareholders' equity of approximately $3.3 billion, consisting of a decrease in Retained earnings of approximately $3.7 billion, partially offset by an increase in Accumulated other comprehensive income of $0.4 billion. The reduction in DAC is primarily due to costs associated with unsuccessful sales efforts, which are no longer deferrable, and advertising costs that do not meet the direct response advertising criteria under the accounting standard. The reduction in DAC at January 1, 2012 includes a reduction at Chartis of approximately $2.8 billion and SunAmerica of approximately $2.1 billion. The retrospective adoption will improve Income (loss) from continuing operations before income tax expense (benefit) by approximately $149 million, $90 million and $40 million, respectively, for the years ended December 31, 2011, 2010, and 2009. The improvement in Income (loss) from continuing operations is primarily due to the amortization of acquisition costs being greater than the deferral of acquisition costs in these years, and therefore due to the adoption of the standard, the reduction in amortization expense is greater than the reduction in deferrals. The impact to these years includes the results from Chartis, SunAmerica, UGC and divested businesses. During this three-year period, the composition of DAC reflects the change in the mix of distribution channels.

The following table shows the increase (decrease) to pre-tax income (loss) for the years ended December 31, 2011, 2010 and 2009 related to the retrospective adoption of the accounting standard for each business unit impacted:

Years Ended December 31, ***(in millions)***	**2011**	**2010**	**2009**
Chartis	**$ 107**	$ 67	$ 51
SunAmerica	**46**	(11)	54
UGC	**(4)**	34	1
Divested businesses	**-**	-	(66)
Total	**$ 149**	$ 90	$ 40

Chartis expects the accounting standard will increase its future combined ratio by approximately 50 to 100 basis points. However, the increase could vary depending on the level of premium production, changes in product mix and distribution channels utilized to acquire business. For SunAmerica, the effect on future years' earnings will be partially offset by lower amortization resulting from the reduction in the existing DAC asset upon adoption. As a result, this standard is not expected to have a material effect on SunAmerica operating results in 2012.

See Note 2 to the Consolidated Financial Statements for further discussion.

Chartis

Given the continued global economic environment and current property and casualty market conditions, 2012 is expected to remain challenging, but improving trends in certain key indicators may offset some of the challenges. The weakness of ratable exposures (asset values, payrolls, and sales) experienced in 2009 and 2010 and its negative impact on the overall market premium base, as well as continued weakness in commercial insurance rates, were initially expected to continue through 2011. However, in 2011, Chartis observed that the extent of ratable exposure weakness in the United States was beginning to abate. In addition, beginning in the second quarter of 2011 and

continuing through the fourth quarter of 2011, Chartis observed continuing positive pricing trends, particularly in its U.S. commercial business for the first time since 2009. In certain growth economies such as Brazil, Turkey, India, and Asia Pacific countries, Chartis continues to expect improved growth.

Strategy

Chartis continues to make strides in its strategy to further grow its higher value and less capital intensive lines of business, and to implement corrective actions on underperforming businesses. Management continues to review the businesses to ensure that they meet overall performance measures.

Chartis seeks to provide value for people and businesses worldwide through the identification and efficient management of risk. In pursuing this mission and in growing its intrinsic value, Chartis has established strategic initiatives in several key areas. Initiatives in these areas are helping Chartis to direct its capital and resources to optimize financial results, while acknowledging that performance in these areas may vary from quarter to quarter depending upon local market conditions, such as pricing and the effects of foreign exchange rates or changes in the investment environment.

Business Mix Changes

Chartis is pursuing initiatives to grow in higher value, less volatile lines of business and geographies. In Commercial Insurance, Chartis is leveraging its significant geographic footprint and multinational capabilities to serve large and mid-sized businesses with cross-border operations. Commercial Insurance is also expanding its presence in the growth economy nations (which primarily includes nations in Asia Pacific, the Middle East and Latin America). Chartis' new global organizational design will enable Commercial Insurance to more effectively leverage underwriting and product best practices to enhance customer and channel management. In the Americas and the Europe, Middle East and Africa (EMEA) regions, Commercial Insurance expects to improve the quality of its portfolio and to capitalize on market opportunities. In the Asia Pacific region, management expects to leverage the additional distribution and customer base acquired in connection with the purchase of Fuji Fire & Marine Insurance Company Limited (Fuji).

Since 2009, Consumer Insurance has increased net premiums written by 47 percent, primarily driven by the Fuji acquisition. In 2011, Consumer Insurance represented 38 percent of Chartis' net premiums written, compared to 30 percent in 2009. Consumer Insurance continues to grow its net premiums written in key markets and to expand internationally. Consumer Insurance has well-established global franchises and operations, existing growth strategies in multiple distribution channels which include direct to consumer, agent, broker and affinity groups, and a focus on the growth economy nations. In the Asia Pacific region, the acquisition of Fuji enables the continued expansion of its distribution and customer base across a breadth of products. In the Americas region, Consumer Insurance continues to focus its growth in key areas, such as the high net worth and affluent markets, and will implement a group benefits strategy with American General. In the EMEA region, management expects modest growth and will continue to focus on solid underwriting performance.

Loss Ratio Improvement

Chartis expects that by implementing selective pricing, underwriting and distribution strategies, net premiums written will grow without increasing the relative volatility of losses. In addition, Chartis expects to continue to focus on reducing the costs associated with adjusting claims by improving efficiency in servicing its customers, thus improving its loss ratio. In the commercial casualty lines, underwriting changes have been made to address historical experience with respect to adverse development. Changes include increased actuarial involvement in product aggregate pricing and attachments, increased utilization of pricing and predictive models with actuarial support, policy form changes, increased policy exclusions and fewer multi-year policies being offered. During 2011, as part of its on-going initiatives to reduce exposure to capital intensive long-tail lines, Chartis determined to cease writing excess workers' compensation business as a stand-alone product.

In 2011, management took remedial actions related to certain Consumer Insurance programs that did not meet internal performance or operating targets. Accident & Health (A&H) improved in key markets such as Far East,

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Europe and Asia Pacific as a result of underwriting actions, and Personal Lines improved as a result of rate increases in key markets, such as the Far East region.

Expense Discipline

To achieve expense reductions, Chartis plans to take advantage of its global footprint to improve efficiencies and expand the use of shared services to support regional businesses in strategic locations, reduce use of external services and negotiate preferred rates with vendors. In the near term, Chartis may increase certain operating expenses in order to develop future improvements and efficiencies.

As a result of the business mix shift and the investment in the growth economy nations, policy acquisition expenses are expected to increase in 2012. Chartis expects, however, that these changes will ultimately help to generate business with overall more favorable underwriting results.

Risk Selection

Commercial Insurance continued to pursue a comprehensive strategy in 2011 to strengthen its portfolio performance. This includes specific actions in the U.S. Specialty Workers Compensation business. The Commercial Property business continues to improve through increased rates, improved terms and conditions and reductions in exposures to U.S. catastrophes. Additionally, Commercial Insurance is implementing the development and use of pricing and risk selection tools in many lines of business.

Consumer Insurance continued to exercise underwriting discipline in risk selection processes to balance risk exposures to the premiums charged in most lines of business in 2011. Improved premium pricing methods through a better understanding of risk attributes has led to better risk selection. Investments continue to be made in risk and marketing analytics, which will further strengthen Chartis' capabilities in these areas.

Capital Deployment

Chartis' scale and geographical diversification also allow the business to strategically deploy capital to pursue the more attractive long-term opportunities around the world. Chartis regularly reviews and adjusts its business mix with the goals of aligning risk profile with risk tolerance and meeting capital management objectives.

In the second half of 2011, Chartis began to restructure renewals of certain Commercial Casualty loss-sensitive programs from a retrospectively rated premium structure to a more capital efficient loss reimbursement deductible structure. The deductible structure reduces net premiums written and limits the variability around individual insured premium and claim adjustments when compared to retrospectively rated programs. This overall reduction in the premium and claims adjustment variability creates a corresponding reduction in the required capital needed to support this business. The effect of these initiatives decreased net premiums written in casualty lines for 2011. Chartis expects further declines in net premiums written in this class of business through 2012. However, given the capital-intensive nature of these classes of business, Chartis expects that over time, these actions will improve its overall results.

In 2012, Chartis expects to continue to execute capital management initiatives by enhancing broad-based risk tolerance guidelines for its operating units and executing underwriting and reinsurance strategies to improve capital ratios and reduce volatility, increase return on equity by line of business and reduce exposure to businesses with inadequate pricing and increased loss trends.

Investments

Consistent with AIG's worldwide insurance investment policy, Chartis places primary emphasis on investments in fixed maturity securities issued by corporations, municipalities and other governmental agencies, and to a lesser extent, common stocks, private equity, hedge funds and other alternative investments.

Fixed maturity securities held by Chartis historically have included tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to better optimize its overall investment portfolio, including risk-return and tax objectives, Chartis has begun to shift from tax-exempt municipal bonds to taxable

instruments, which meet Chartis' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives. In addition, Chartis has redeployed cash in excess of operating needs and short term investments into longer term, higher yielding securities.

Chartis makes determinations of other-than-temporary impairments based on the fundamental credit analyses of individual securities. Life settlement contracts are evaluated on a contract-by-contract basis to assess impairment. During the second quarter of 2011, Chartis implemented an enhanced process in which updated medical information on individual insured lives is requested on a routine basis. In cases where updated information indicates that an individual's health has improved, an impairment loss may arise as a result of revised estimates of net cash flows from the related contract. Chartis also revised its valuation table, which it uses in estimating future net cash flows.

Recently, a number of courts have addressed various life settlement related issues in their decisions. Chartis does not expect that the rulings in those cases will have a significant effect on its investment in life settlement contracts.

See Segment Results Chartis Operations Chartis Results Chartis Investing and Other Results and Note 7 to the Consolidated Financial Statements for additional information.

SunAmerica

SunAmerica continues to pursue its goals of expanding the breadth and depth of its distribution relationships, introducing competitive new products and product riders, maintaining a high quality investment portfolio and strong statutory surplus, pro-actively managing expenses and, subject to regulatory approval, increasing payments made to AIG Parent. SunAmerica made progress on all of these efforts during 2011, and expects this progress to continue for 2012.

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

SunAmerica's insurance companies, like other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. State regulation relates primarily to financial condition as well as corporate conduct and market conduct activities; in particular, states have also become increasingly aggressive in using escheatment laws to seek recovery of unclaimed life insurance benefits. There are a number of proposals to amend state insurance laws and regulations, and a review of insurance solvency regulation throughout the U.S. regulatory system, which could significantly affect SunAmerica's businesses. At the federal level, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) will subject SunAmerica's insurers, investment advisors, broker-dealers and their affiliates to additional federal regulation. In addition, regulators and lawmakers around the world are developing recommendations to address such issues as financial group supervision, capital and solvency standards, and related issues, which could potentially affect SunAmerica. See Item 1. Business Regulation for additional information.

Variable Annuities

SunAmerica experienced an increase in its variable annuity sales as various distribution partners resumed sales of SunAmerica's products during 2010 and 2011. SunAmerica's largest pre-financial-crisis variable annuity distribution partner resumed distribution of SunAmerica's products in mid-2011. As a result of broader distribution opportunities, SunAmerica expects variable annuity sales to remain strong in 2012.

SunAmerica has a dynamic hedging program designed to manage economic risk exposure associated with changes in the fair value of embedded policy derivative liabilities contained in certain variable annuity contracts, caused by changes in the equity markets, interest rates and market implied volatilities. SunAmerica substantially hedges its exposure to equity markets. However, due to regulatory capital considerations, a significant portion of the interest rate exposure is unhedged. In 2011, SunAmerica experienced losses of $265 million from these unhedged positions, primarily as a result of the effect of declining interest rates. SunAmerica has purchased additional hedges and is contemplating additional capital-efficient strategies to reduce this interest rate exposure. SunAmerica is also exposed to the risk of policyholder behavior differing from that assumed in its pricing model.

Fixed Annuities

After a period of historic lows, interest rates generally increased at the longer part of the yield curve during the latter part of 2010 and through the first three months of 2011 before declining significantly in the latter part of 2011. Changes in the interest rate environment affect the relative attractiveness of fixed annuities compared to alternative products. As a result, SunAmerica's fixed annuity sales declined significantly in the last six months of 2011 compared to the first six months. If the low interest rate environment continues, SunAmerica expects fixed annuities sales (including deposits into fixed options within variable annuities sold in group retirement markets) to decline in 2012.

Life Insurance

SunAmerica's strategic focus includes disciplined underwriting, active expense management, product innovation, a high quality investment portfolio and a strong capital position. SunAmerica's distribution strategy is to grow new sales by strengthening the core retail independent distributor channel with investments in enhanced service technology, and expanding its market presence to additional channels and niche markets.

SunAmerica's retail life sales increased 17 percent during 2011. Based on industry information available through the first nine months of 2011, this growth rate exceeded that of the industry as SunAmerica continued to re-engage distributors lost during the 2008 economic crisis. SunAmerica anticipates this trend to continue in 2012. The economic environment has put pressure on consumer spending capacity, which, in part, has tempered sales of universal life products which typically have higher annual premiums than term products and also offer additional features.

The direct-to-consumer channel has proven effective for the distribution of certain types of less complex products, and provides opportunities to bring innovative product solutions to the market that take advantage of new underwriting technologies. Sales growth through SunAmerica's affiliated Matrix Direct channel outpaced retail sales growth and SunAmerica continues to have a positive outlook on future direct sales. The career distribution channel is focused on improving agent retention and productivity. Career distribution sales in 2011 benefitted from a product suite that has proven appealing to consumers, which is offered though a highly focused, affiliated distribution group using improved point-of-sale technologies. Steady growth from this channel is expected to continue.

Investments

SunAmerica built up a large cash and short-term investment position beginning in the fourth quarter of 2010 with the intention of purchasing all the assets in the ML II portfolio. Following the FRBNY's decision in early 2011 to begin selling the MLII assets through a competitive bidding process, SunAmerica began acquiring other fixed maturity investments, including certain securities from ML II. Beginning late in the first quarter of 2011, SunAmerica began investing its excess cash and liquid assets in longer-term higher-yielding securities to improve spreads, while actively managing credit and liquidity risks. SunAmerica substantially completed this reinvestment during the year, reducing its cash and short-term investment position from $19.4 billion at December 31, 2010 to $3.8 billion at December 31, 2011.

During 2011, SunAmerica sold approximately $12.9 billion of investments, which enhanced statutory capital and generated capital gains. The proceeds of these sales were reinvested at generally lower yields. The impact of these lower yields, however, was more than offset by the effect of cash redeployment discussed above. Additionally, during prolonged periods of low or declining interest rates, SunAmerica has to invest net flows and re-invest interest and principal payments from its investment portfolios in lower yielding securities.

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Interest Crediting Rates

SunAmerica's annuity and universal life products have contractual provisions that allow crediting rates to be reset at pre-established intervals subject to minimum crediting rate guarantees. Due to the contractual provisions for renewal of crediting rates and the minimum crediting rate guarantees, continuation of the current low interest rate environment may reduce SunAmerica's interest spreads which may reduce future profitability. SunAmerica partially mitigates this interest rate risk through its asset-liability management process, product design elements, and crediting rate strategies. A prolonged low interest rate environment may, nevertheless, negatively affect spreads on interest-sensitive business. As indicated in the table below, approximately 45 percent of SunAmerica's annuity and universal life account values are at their minimum crediting rates as of December 31, 2011. These products have minimum guaranteed interest rates as of December 31, 2011 ranging from 1.0 percent to 5.5 percent with the higher rates representing older product guarantees.

The following table presents account values by range of current minimum guaranteed interest rates and current crediting rates for SunAmerica's universal life and deferred fixed annuity products:

December 31, 2011		**Current Crediting Rates**		
Contractual Minimum Guaranteed Interest Rate *(in millions)*	**At Contractual Minimum Guarantee**	**1-50 Basis Points Above Minimum Guarantee**	**More than 50 Basis Points Above Minimum Guarantee**	**Total**
Universal life insurance				
1%	$ -	$ -	$ 6	$ 6
> 1% - 2%	-	-	216	216
> 2% - 3%	62	131	1,490	1,683
> 3% - 4%	891	933	1,724	3,548
> 4% - 5%	4,060	958	184	5,202
> 5% - 5.5%	320	4	5	329
Subtotal	$ 5,333	$ 2,026	$ 3,625	$ 10,984
Fixed annuities				
1%	$ 378	$ 1,542	$ 5,828	$ 7,748
> 1% - 2%	1,978	5,220	16,361	23,559
> 2% - 3%	19,670	7,816	11,339	38,825
> 3% - 4%	11,407	2,782	1,288	15,477
> 4% - 5%	8,126	-	7	8,133
> 5% - 5.5%	243	-	5	248
Subtotal	$ 41,802	$ 17,360	$ 34,828	$ 93,990
Total	$ 47,135	$ 19,386	$ 38,453	$ 104,974
Percentage of total	45%	18%	37%	100%

In addition to the products discussed above, certain traditional long-duration products for which SunAmerica does not have the ability to adjust interest rates, such as payout annuities, are exposed to reduced earnings and potential losses in a prolonged low interest rate environment. For additional information, see Critical Accounting Estimates Future Policy Benefits for Life and Accident and Health Insurance Contracts (SunAmerica Companies).

Aircraft Leasing

ILFC continues to execute on its strategy of managing its fleet of aircraft by ordering new aircraft with high customer demand and through potential sales or part-outs of its older aircraft that cannot be economically leased to customers. As new and more fuel efficient aircraft enter the marketplace and negatively affect the demand for older aircraft, lease rates on older aircraft may deteriorate and ILFC may incur additional losses on sales or record impairment charges and fair value adjustments.

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In the near term, challenges in the global economy, including the European sovereign debt crisis, political uncertainty in the Middle East, and sustained higher fuel prices have negatively impacted many airlines' profitability, cash flows and liquidity, and increased the probability that some, including ones that are ILFC customers, will cease operations or file for bankruptcy. During the year ended December 31, 2011, ILFC had seven of its lessees cease operations or file for bankruptcy (or its equivalent) and return nine of its aircraft. Since December 31, 2011, ILFC has had four additional lessees cease operations or file for bankruptcy (or its equivalent) and return 42 of its aircraft. Of these aircraft, 17 remain to be re-leased as of February 21, 2012. Future events, including a prolonged recession, ongoing uncertainty regarding the European sovereign debt crisis, political unrest, continued weak consumer demand, high fuel prices, or restricted availability of credit to the aviation industry could lead to the weakening or cessation of operations of additional airlines, which in turn would adversely affect ILFC's earnings and cash flows.

On September 2, 2011, ILFC Holdings, Inc., an indirect wholly-owned subsidiary of AIG, which is intended to become a holding company for ILFC, filed a registration statement on Form S-1 with the SEC for a proposed initial public offering. The number of shares to be offered, price range and timing for any offering have not been determined. The timing of any offering will depend on market conditions and no assurance can be given regarding the terms of any offering or that an offering will be completed.

Other Operations

Mortgage Guaranty

UGC has continued its strategy of differentiating itself from its competitors through its risk-based pricing approach and has emerged as a leading producer of new mortgage insurance business. UGC believes its differentiated pricing and underwriting practices have helped establish it as a leader in the industry. During 2011, UGC has significantly increased new insurance written over 2010 levels while improving the risk profile of its in force book of business. The mortgage insurance industry, however, has come under continued financial stress during 2011 due to the continued poor macroeconomic conditions with some mortgage insurers exceeding their respective regulatory capital leverage ratios. As a result, two of these insurers have ceased selling new insurance and the parent of one of these insurers was placed into bankruptcy. The withdrawal of these competitors from the market combined with the differentiation strategy that UGC implemented in late 2010 and early 2011 has positioned the company to take advantage of market opportunities. UGC plans to continue this strategy during 2012 with continuing improvements in market share and continued improvement in the risk profile of new business written.

In older books of business, primarily the 2005 to 2008 books, newly reported delinquencies declined while increased claims severity and overturns on previously denied claims unfavorably affected results. UGC continued to deny claims and rescind coverage on loans (collectively referred to as rescissions) related to fraudulent or undocumented claims, underwriting guideline violations and other deviations from contractual terms, mostly with respect to the 2006 and 2007 vintage books of business. These policy violations resulted in loan rescissions totaling $746 million of claims on first-lien business during 2011 compared to $781 million during 2010. Although rescissions will continue to have a positive effect on UGC's financial results, higher levels of appeals and overturns resulting from additional resources deployed by lenders and mortgage servicers to address loan documentation issues have offset rescissions. During 2011 rescissions totaling $411 million of risk were overturned compared to $172 million in 2010. While these items may increase volatility in the future, UGC believes it has provided appropriate reserves for currently delinquent loans after consideration of rescissions and overturns, consistent with industry practice. Additionally, during 2011, UGC changed its follow up practice for loans that had been delinquent approximately 24 months or more and were not expected to be cured. Beginning in the third quarter of 2011, UGC contacted lenders regarding 18,000 loans or approximately 19 percent of the delinquent inventory and requested that, in accordance with the terms of the respective master policies, the lender file a claim. By the end of 2011, UGC had received responses to approximately half of the requests. UGC continues to monitor and review the status of these requests as well as contacting lenders on an ongoing basis about additional delinquencies that meet these criteria. Under these master policies, if a claim is not submitted within a year of UGC's request, coverage will be cancelled.

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Foreclosure moratoriums as a result of state attorneys general investigations into lenders' foreclosure practices and new financial regulations initiated in 2010 have slowed the reporting of claims from foreclosures, which has increased the uncertainty surrounding the determination of the liability. UGC's assumptions regarding future foreclosures on current delinquencies take into consideration this trend, although significant uncertainty remains surrounding the determination of the liability for unpaid claims and claims adjustment expenses. UGC expects that this trend may continue and may negatively affect UGC's future financial results. Final resolution of these issues is uncertain and UGC cannot reasonably estimate the ultimate financial impact that any resolution, individually or collectively, may have on its future results of operations or financial condition. In addition, UGC has segmented its reserving approach to consider slower development patterns and higher severity in certain states separately from other states. UGC expects to continue this practice as long as significant variances persist among states.

In March 2011, federal regulators, as required by Dodd-Frank, issued a proposed risk retention rule that included a definition of a Qualified Residential Mortgage (QRM) in respect of which issuers of asset-backed securities would not be subject to certain risk retention requirements. The QRM definition included, among other standards, a maximum loan-to-value ratio (LTV) of 80 percent for a home purchase transaction. The LTV is calculated without imputing any benefit from private mortgage insurance coverage that may be purchased for that loan. The final regulations could adversely impact UGC's volume of domestic first-lien new insurance written, depending on the final definition of a QRM, the maximum LTV allowed and the benefit, if any, ascribed to private mortgage insurance.

Global Capital Markets

The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011. Although the remaining AIGFP derivatives portfolio may experience periodic fair value volatility, the portfolio consists predominantly of transactions AIG believes are of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis.

Direct Investment Book

MIP assets and liabilities and certain non-derivative assets and liabilities of AIGFP (collectively the Direct Investment book or DIB) are currently managed collectively on a single program basis to limit the need for additional liquidity from AIG Parent. Liquidity requirements for the DIB are managed by transferring cash between AIG Parent and AIGFP as needed.

Program management is focused on winding down this portfolio over time, and reducing and managing its liquidity needs, including contingent liquidity arising from collateral posting, for both derivative and debt positions of the DIB. As part of this program management, AIG may from time to time access the capital markets, subject to market conditions. In addition, AIG may seek to buy back debt or sell assets on an opportunistic basis, subject to market conditions.

Certain non-derivative assets and liabilities of the DIB are accounted for under the fair value option and thus operating results are subject to periodic market volatility.

Retained Interests

Retained Interests may continue to experience volatility due to fair value gains or losses on the AIA ordinary shares and the retained interest in ML III. At December 31, 2011, AIG owned approximately 33 percent of the outstanding shares of AIA. A one Hong Kong dollar change in AIA's share price would result in an approximate $500 million change in AIG's pre-tax income.

Corporate & Other

In 2011, AIG completed the Recapitalization, executed transactions in the debt and equity capital markets and substantially completed its asset disposition plan. It is expected that declines in interest expense and disposition activity costs will be at least partially offset in the short term by increases in other corporate expenses, primarily attributable to corporate initiatives and efforts to continue improving internal controls and financial and operating technology platforms.

On October 18, 2011, the Financial Stability Oversight Council (the FSOC) published a second notice of proposed rulemaking and related interpretive guidance under Dodd-Frank regarding the designation of non-bank systemically important financial institutions (SIFIs). The new proposal sets forth a three-stage determination process for designating non-bank SIFIs. In Stage 1, FSOC would apply a set of uniform quantitative thresholds to identify the nonbank financial companies that will be subject to further evaluation. Based on its financial condition as of December 31, 2011, AIG would meet the criteria in Stage 1 and would be subject to further evaluation by the FSOC in the SIFI determination process. Because Stages 2 and 3 as proposed would involve qualitative judgment by the FSOC, AIG cannot predict whether it would be designated as a non-bank SIFI under the proposed rule. See Item 1. Business Regulation and Item 1A. Risk Factors for additional information.

The remainder of MD&A is organized as follows:

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

RESULTS OF OPERATIONS

In order to align financial reporting with changes made during 2011 to the manner in which AIG's chief operating decision makers review the businesses to assess performance and make decisions about resources to be allocated, AIG changed its segments in the third quarter of 2011.

AIG now reports the results of its operations through three reportable segments: Chartis, SunAmerica Financial Group (SunAmerica), and Aircraft Leasing. Through these reportable segments, AIG provides insurance, financial and investment products and services to both businesses and individuals in more than 130 countries. AIG's subsidiaries serve commercial, institutional and individual customers through an extensive property-casualty and life insurance and retirement services network. Aircraft Leasing includes commercial aircraft and equipment leasing. AIG's Other operations category consists of businesses and items not allocated to AIG's reportable segments.

CONSOLIDATED RESULTS

During 2011, AIG experienced significant favorable developments, including the completion of the Recapitalization in January 2011, the wind-down of AIGFP's portfolios, the sale of certain life insurance businesses, emergence from cumulative losses in recent years and a return to sustainable operating profits within its primary operations. Notably:

- AIG released approximately $16.6 billion of the deferred tax asset valuation allowance for the U.S. consolidated income tax group. The fourth quarter effect was $17.7 billion, which included valuation allowance increases during the first nine months of 2011. See Critical Accounting Estimates Recoverability of Deferred Tax Asset herein and Note 22 of the Consolidated Financial Statements for additional information;

- Chartis prior year adverse loss reserve development declined by $4.6 billion to $211 million;

- Interest expense declined $4.1 billion, primarily due to the termination of the FRBNY Credit Facility; and

- Improving equity markets contributed to a $1.3 billion increase in the market valuation of AIG's holding of AIA ordinary shares.

Offsetting these favorable developments were record catastrophe losses for Chartis and the effects of several macroeconomic drivers, including declining equity markets, widening credit spreads, and declining interest rates, including:

- Total catastrophe losses of $3.3 billion for Chartis in 2011 compared to $1.1 billion in 2010;

- Aircraft Leasing losses of $1.7 billion due to impairment charges, fair value adjustments and lease-related charges on aircraft;

- The widening of credit spreads, reduced interest rates, and changes in the timing of estimated future cash flows drove declines of $604 million in the recorded fair value of the Maiden Lane Interests;

- AIG recognized a $3.3 billion loss on extinguishment of debt related to the termination of the FRBNY Credit Facility, which was partially offset by a $484 million gain on extinguishment of debt associated with the exchange of junior subordinated debt; and

- Components of operating results decreased due to the deconsolidation of AIA in the fourth quarter of 2010.

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The following table presents AIG's consolidated results of operations (comparability with 2010 and 2009 is affected by the deconsolidation of AIA in the fourth quarter of 2010):

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**	**Percentage Change** 2011 vs. 2010	2010 vs. 2009
Revenues:					
Premiums	**$ 38,990**	$ 45,319	$ 48,583	(14)%	(7)%
Policy fees	**2,705**	2,710	2,656	-	2
Net investment income	**14,755**	20,934	18,992	(30)	10
Net realized capital gains (losses)	**521**	(175)	(5,210)	NM	97
Aircraft leasing revenue	**4,508**	4,749	4,967	(5)	(4)
Other income	**2,758**	3,989	5,459	(31)	(27)
Total revenues	**64,237**	77,526	75,447	(17)	3
Benefits, claims and expenses:					
Policyholder benefits and claims incurred	**33,449**	41,394	45,311	(19)	(9)
Interest credited to policyholder account balances	**4,446**	4,480	4,704	(1)	(5)
Amortization of deferred acquisition costs	**8,019**	9,134	9,442	(12)	(3)
Other acquisition and insurance expenses	**6,091**	6,775	6,818	(10)	(1)
Interest expense	**3,871**	7,981	14,358	(51)	(44)
Aircraft leasing expenses	**3,974**	4,050	2,385	(2)	70
Net loss on extinguishment of debt	**2,908**	104	-	NM	NM
Net (gain) loss on sale of properties and divested businesses	**74**	(17,767)	1,271	NM	NM
Other expenses	**2,470**	3,439	5,465	(28)	(37)
Total benefits, claims and expenses	**65,302**	59,590	89,754	10	(34)
Income (loss) from continuing operations before income tax expense (benefit)	**(1,065)**	17,936	(14,307)	NM	NM
Income tax expense (benefit)	**(18,036)**	5,859	(1,489)	NM	NM
Income (loss) from continuing operations	**16,971**	12,077	(12,818)	41	NM
Income (loss) from discontinued operations, net of income tax expense (benefit)	**1,535**	(2,064)	505	NM	NM
Net income (loss)	**18,506**	10,013	(12,313)	85	NM
Less: Net income (loss) attributable to noncontrolling interests	**708**	2,227	(1,364)	(68)	NM
Net income (loss) attributable to AIG	**$ 17,798**	$ 7,786	$ (10,949)	129%	NM%

The comparisons of 2011 and 2010 results to the respective prior year follow:

Premiums

2011 and 2010 Comparison

Premiums decreased in 2011 compared to 2010 primarily due to the deconsolidation in the fourth quarter of 2010 of AIA, which accounted for $9.3 billion of premiums in 2010. The decline in premiums for 2011 compared to 2010 was partially offset by an increase in Chartis premiums, primarily resulting from the consolidation of Fuji commencing in the third quarter of 2010, and the favorable effect of foreign exchange rates.

2010 and 2009 Comparison

Premiums decreased in 2010 compared to 2009 primarily due to a reduction of $3.3 billion related to 2009 dispositions that did not meet the criteria for discontinued operations accounting. These dispositions included HSB Group, Inc. (HSB), 21st Century Insurance Group (including Agency Auto Division and excluding Chartis

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Private Client Group) (21st Century) and AIG Life of Canada (AIG Life Canada), as well as the deconsolidation of Transatlantic Holdings, Inc (Transatlantic) in 2009.

Policy Fees

2011 and 2010 Comparison

Policy fees decreased slightly in 2011 compared to 2010 as higher variable annuity fee income was more than offset by lower surrender charges due to decreased surrender rates and universal life unlockings.

2010 and 2009 Comparison

Policy fees increased slightly for 2010 compared to 2009 primarily due to higher variable annuity fees on separate account assets consistent with the growth in variable accounts assets as a result of favorable equity market conditions in late 2010.

Net Investment Income

The following table summarizes the components of consolidated Net investment income:

	Years Ended December 31,			Percentage Change	
(in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Fixed maturity securities, including short-term investments	**$ 11,814**	$ 14,445	$ 14,535	(18)%	(1)%
Change in fair value of ML II	**42**	513	(25)	(92)	NM
Change in fair value of ML III	**(646)**	1,792	419	NM	328
Change in fair value of AIA securities	**1,289**	(638)	-	NM	NM
Change in the fair value of MetLife securities prior to their sale	**(157)**	665	-	NM	NM
Equity securities	**92**	234	186	(61)	26
Interest on mortgage and other loans	**1,065**	1,268	1,347	(16)	(6)
Alternative investments*	**1,213**	1,602	4	(24)	NM
Mutual funds	**47**	(25)	315	NM	NM
Real estate	**107**	126	139	(15)	(9)
Other investments	**398**	557	306	(29)	82
Total investment income before policyholder income and trading gains	**15,264**	20,539	17,226	(26)	19
Policyholder investment income and trading gains	**-**	886	2,305	NM	(62)
Total investment income	**15,264**	21,425	19,531	(29)	10
Investment expenses	**509**	491	539	4	(9)
Net investment income	**$ 14,755**	$ 20,934	$ 18,992	(30)%	10%

* *Includes hedge funds, private equity funds and affordable housing partnerships.*

2011 and 2010 Comparison

Net investment income decreased primarily due to the following:

- the effect of the deconsolidation of AIA in the fourth quarter of 2010. AIA net investment income prior to deconsolidation in 2010 totaled $4.0 billion, which included $886 million in policyholder trading gains;

- a decline in the fair value of the Maiden Lane Interests of $604 million due to significant widening of credit spreads and reduced interest rates compared to gains of $2.3 billion in 2010; and

- fair value losses on the MetLife securities prior to their sale in March 2011.

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These decreases were partially offset by:

- fair value gains on the AIA ordinary shares in 2011 compared to losses in 2010; and
- an increase in income from fixed maturity securities, excluding the effect of the AIA deconsolidation, due to higher average invested asset balances as a result of the cash redeployment in 2011.

2010 and 2009 Comparison

Net investment income increased in 2010 compared to 2009 primarily due to significantly higher income from private equity funds and hedge fund investments due to an improved market environment compared to 2009, and increased valuation gains associated with the Maiden Lane Interests.

These increases were partially offset by a decline in policyholder trading gains compared to 2009. Policyholder trading gains are offset by a change in Policyholder benefits and claims incurred and generally reflect the trends in equity markets, principally in Asia.

Net Realized Capital Gains (Losses)

The following table summarizes the components of consolidated Net realized capital gains (losses):

	Years Ended December 31,			Percentage Change	
(in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Sales of fixed maturity securities	**$ 1,913**	$ 1,846	$ 849	4%	117%
Sales of equity securities	**164**	725	303	(77)	139
Other-than-temporary impairments:					
Severity	**(51)**	(73)	(1,510)	30	95
Change in intent	**(12)**	(441)	(958)	97	54
Foreign currency declines	**(32)**	(63)	(112)	49	44
Issuer-specific credit events	**(1,165)**	(2,457)	(3,979)	53	38
Adverse projected cash flows	**(20)**	(5)	(137)	(300)	96
Provision for loan losses	**48**	(304)	(614)	NM	50
Change in the fair value of MetLife securities prior to the sale	**(191)**	315	-	NM	NM
Foreign exchange transactions	**(116)**	178	(616)	NM	NM
Derivative instruments	**297**	138	1,724	115	(92)
Other	**(314)**	(34)	(160)	NM	79
Net realized capital gains (losses)	**$ 521**	$ (175)	$ (5,210)	NM	97

2011 and 2010 Comparison

AIG recognized net realized capital gains in 2011 compared to net realized capital losses in 2010 due to the following:

- lower other-than-temporary impairment charges from issuer-specific credit events and changes in intent; and

- improvement in the provision for loan losses due to an increase in collateral values as a result of improved operating performance and improved market conditions.

These gains were partially offset by the following:

- lower gains on sales of equity securities in 2011 compared to 2010 due to higher sales in 2010 resulting from the continuing insurance companies' portfolio repositioning;

- fair value losses in 2011 compared to gains in 2010 on the MetLife securities prior to their sale in March 2011;

- foreign exchange transaction losses incurred in 2011 compared to gains in 2010, primarily from the weakening of the U.S. dollar against the Swiss Franc and Japanese Yen, partially offset by the strengthening of the U.S. dollar against the Euro and the British Pound; and

- the deconsolidation of AIA.

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2010 and 2009 Comparison

Net realized capital losses decreased in 2010 compared to 2009 primarily due to the following:

- increased gains on sales of fixed maturity and equity securities in 2010;

- lower other-than-temporary impairment charges for fixed maturity securities in 2010 as a result of the adoption of the other-than-temporary impairments accounting standard commencing in the second quarter of 2009. See Investments Impairments Other-Than-Temporary Impairments herein and Note 7 to the Consolidated Financial Statements; and

- foreign exchange transaction gains incurred in 2010 compared to losses in 2009 primarily resulting from the strengthening of the U.S. dollar against the Euro and the British Pound compared to 2009.

These improvements were partially offset by lower gains from derivative instruments not designated for hedge accounting, particularly those used to hedge foreign exchange movements.

Aircraft Leasing Revenue

2011 and 2010 Comparison

Aircraft leasing revenue decreased slightly, primarily due to a reduction in ILFC's average fleet size resulting from sales of aircraft and the impact of lower lease revenue earned on re-leased aircraft in its fleet. In 2011, ILFC had an average of 932 aircraft in its fleet, compared to 963 in 2010.

2010 and 2009 Comparison

Aircraft leasing revenue decreased slightly due to a reduction in ILFC's average fleet size resulting from sales of aircraft and the impact of lower lease rates on used aircraft. In 2010, ILFC had an average of 963 aircraft in its fleet, compared to 974 in 2009.

Other Income

2011 and 2010 Comparison

The decline in Other income for 2011 compared to 2010 was driven by:

- a decline of $559 million in credit valuation adjustment gains on Direct Investment book non-derivative assets and liabilities;

- a decline of $259 million in unrealized market valuation adjustment gains on the AIGFP super senior credit default swap portfolio;

- a decline of $172 million in unrealized market valuation adjustments on the AIGFP credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits, due to losses in 2011 compared to gains in 2010; and a bargain purchase gain of $332 million recognized in the first quarter of 2010 related to the acquisition of Fuji, which is further discussed in Note 5 to the Consolidated Financial Statements.

These declines were partially offset by significantly lower levels of real estate investment impairment charges in 2011.

2010 and 2009 Comparison

The decline in Other income for 2010 compared to 2009 was driven by a decline of $1.0 billion and $975 million in credit valuation adjustments on Direct Investment book non-derivative assets and liabilities and AIGFP derivative assets and liabilities, respectively, as well as a decline of $820 million in unrealized market valuation adjustments on the AIGFP super senior credit default swap portfolio. This decline was partially offset by a bargain

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purchase gain of $332 million related to the Fuji acquisition and reduced losses from AIGFP from lower unwind costs.

Policyholder Benefits and Claims Incurred

2011 and 2010 Comparison

Policyholder benefits and claims incurred decreased in 2011 compared to 2010 as a result of the following:

- a decline of $8.7 billion related to the deconsolidation of AIA; and
- Chartis' $72 million of net reserve strengthening in 2011 compared to net strengthening of $4.3 billion in 2010.

This decline was partially offset by:

- increased catastrophe losses throughout the year, including the Thailand floods in the fourth quarter of 2011, Hurricane Irene in the third quarter of 2011, the U.S. tornadoes in the second quarter of 2011, and the Tohoku Catastrophe in the first quarter of 2011;
- the effect of Chartis' consolidation of Fuji;
- increased claims and claims adjustment expenses for Mortgage Guaranty operations due to increased overturns of denied and rescinded claims; and
- increased claims at SunAmerica due to enhanced death benefit reserving practices.

2010 and 2009 Comparison

Policyholder benefits and claims incurred decreased in 2010 primarily due to:

- a reduction of $2.2 billion as a result of the dispositions in 2009 noted above that did not meet the criteria for discontinued operations accounting;
- a decrease in incurred policy losses and benefit expenses for AIA of $1.3 billion related to a decline in policyholder trading gains which are discussed above in Net Investment Income; and
- a decrease in claims and claims adjustment expense of $2.4 billion for Mortgage Guaranty operations primarily due to lower levels of newly reported delinquencies in the first-lien, second-lien and international products, higher cure rates on existing first-lien and international delinquent loans and the recognition of stop loss limits on certain second-lien policies.

Partially offsetting these declines were:

the net $4.3 billion of reserve strengthening in 2010 compared to reserve strengthening of $2.8 billion in 2009;

increased catastrophe losses for Chartis; and

the effect of the consolidation of Fuji in 2010.

See Segments Results Chartis Operations Chartis Results herein for further discussion.

Amortization of Deferred Acquisition Costs

2011 and 2010 Comparison

The decrease in Amortization of deferred acquisition costs in 2011 compared to 2010 resulted primarily from the deconsolidation of AIA in the fourth quarter of 2010. The AIA amortization of deferred acquisition costs in 2010 totaled $977 million.

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2010 and 2009 Comparison

The decrease in Amortization of deferred acquisition costs in 2010 compared to 2009 primarily resulted from the dispositions of HSB, 21st Century, AIG Life Canada and Transatlantic in 2009 and from the decrease in amortization for SunAmerica related to improved equity market conditions.

Other Acquisition and Insurance Expenses

2011 and 2010 Comparison

Other acquisition and insurance expenses decreased in 2011 compared to 2010 as a result of the deconsolidation of AIA in the fourth quarter of 2010, partially offset by the consolidation of Fuji commencing in the third quarter of 2010. AIA other acquisition and insurance expenses in 2010 totaled $1.6 billion.

2010 and 2009 Comparison

Other acquisition and insurance expenses decreased slightly in 2010 compared to 2009 as a result of a $1.0 billion decrease related to the dispositions in 2009 noted above, partially offset by increased expenses at Chartis, primarily resulting from the consolidation of Fuji noted above.

Interest Expense

2011 and 2010 Comparison

Interest expense decreased in 2011 compared to 2010 primarily as a result of the repayment and termination of the FRBNY Credit Facility on January 14, 2011. Interest expense on the FRBNY Credit Facility was $72 million in 2011 through the date of termination compared to $4.1 billion in 2010, including amortization of the prepaid commitment fee asset of $48 million and $3.5 billion in 2011 and 2010, respectively. See Note 1 to the Consolidated Financial Statements for further discussion regarding the repayment of the FRBNY Credit Facility in connection with the Recapitalization in January 2011.

2010 and 2009 Comparison

Interest expense decreased in 2010 primarily due to lower interest expense on the FRBNY Credit Facility reflecting a reduced weighted average interest rate on borrowings, a lower average outstanding balance and a decline in amortization of the prepaid commitment fee asset as set forth below.

Years Ended December 31, ***(dollars in millions)***	**2010**	**2009**
Weighted average interest rate	3.3%	4.5%
Average outstanding balance (excluding paid in kind interest)	$ 18,775	$ 37,358
Periodic amortization of prepaid commitment fee asset	$ 1,766	$ 3,174
Accelerated amortization of prepaid commitment fee asset	$ 1,705	$ 5,185

Aircraft Leasing Expenses

ILFC recorded impairment charges, fair value adjustments and lease-related charges of $1.7 billion in both 2011 and 2010 and charges of $51 million in 2009. See Segment Results Aircraft Leasing Operations Aircraft Leasing Results for additional information.

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Net Loss on Extinguishment of Debt

The loss on extinguishment of debt for 2011 includes:

- a $3.3 billion charge primarily consisting of the accelerated amortization of the remaining prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility, which is further discussed in Note 1 to the Consolidated Financial Statements; and

- a $484 million gain on extinguishment related to the junior subordinated debt exchange in the fourth quarter of 2011.

Net (Gain) Loss on Sale of Divested Businesses and Properties

Net (gain) loss on sale of divested businesses and properties includes the net (gain) loss on the sale of divested businesses that did not qualify as discontinued operations as well as gains and losses from property disposals in connection with AIG's restructuring program.

The gain in 2010 primarily represents a gain of $16.3 billion on the sale of 67 percent of AIA, a gain of $228 million associated with the termination fee paid by Prudential plc to AIG related to the termination of the agreement to purchase AIA and a $1.3 billion gain on the sale of the Otemachi building in Japan. See Segment Results   Chartis Operations   Chartis Results   Chartis Other   Chartis Other Results herein for further information.

Other Expenses

2011 and 2010 Comparison

Other expenses decreased in 2011 compared to 2010 due to;

- lower securities-related litigation charges; and

- lower restructuring charges.

2010 and 2009 Comparison

Other expenses decreased in 2010 compared to 2009 due to:

- goodwill impairment charges of $612 million recorded in 2009 related to the Institutional Asset Management business;

- lower compensation-related costs for the Institutional Asset Management business, including the effect of deconsolidation of certain portfolio investments and the sale of the Swiss bank; and

- lower provisions for credit losses for consumer finance businesses not presented as discontinued operations.

Income Taxes

2011 Effective Tax Rate

For the year ended December 31, 2011, the effective tax rate on pretax loss from continuing operations was not meaningful, due to the significant effect of releasing approximately $16.6 billion of the deferred tax asset valuation allowance. Other less significant factors that contributed to the difference from the statutory rate included tax benefits of $454 million associated with tax exempt interest income, $346 million associated with the effect of foreign operations, and $224 million associated with AIG's investment in subsidiaries and partnerships

2010 Effective Tax Rate

For the year ended December 31, 2010, the effective tax rate on pre-tax income from continuing operations was 32.7 percent. The effective tax rate for the year ended December 31, 2010, attributable to continuing operations

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differed from the statutory rate primarily due to tax benefits of $1.3 billion associated with AIG's investment in subsidiaries and partnerships, principally the AIA SPV which is treated as a partnership for U.S. tax purposes, and $587 million associated with tax exempt interest, partially offset by an increase in the valuation allowance attributable to continuing operations of $1.5 billion.

2009 Effective Tax Rate

For the year ended December 31, 2009, the effective tax rate on the pre-tax loss from continuing operations was 10.4 percent. The effective tax rate on the pre-tax loss from continuing operations for the year ended December 31, 2009, differed from the statutory rate primarily due to increases in the valuation allowance of $3.1 billion and reserve for uncertain tax positions of $874 million, partially offset by tax exempt interest of $677 million and the change in investment in subsidiaries and partnerships of $473 million which was principally related to changes in the estimated U.S. tax liability with respect to sales of subsidiaries.

See Critical Accounting Estimates Recoverability of Deferred Tax Asset herein and Note 22 to the Consolidated Financial Statements for additional information.

Discontinued Operations

Income (loss) from Discontinued Operations is comprised of the following:

Years Ended December 31, ***(in millions)***	**2011**	**2010**	**2009**
Foreign life insurance businesses	**$ 1,133**	$ (1,237)	$ 2,581
AGF	**-**	(145)	(904)
Net gain (loss) on sale	**942**	1,588	(2,758)
Consolidation adjustments	**(1)**	(356)	54
Interest allocation	**(2)**	(75)	(89)
Income (loss) from discontinued operations	**2,072**	(225)	(1,116)
Income tax expense (benefit)	**537**	1,839	(1,621)
Income (loss) from discontinued operations, net of tax	**$ 1,535**	$ (2,064)	$ 505

Significant items affecting the comparison of results from discontinued operations included the following:

- a pre-tax gain of $2.0 billion on the sale of AIG Star and AIG Edison in 2011;
- impairments of goodwill in 2010 of $4.6 billion related to ALICO, AIG Star and AIG Edison. See Note 2(j) to the Consolidated Financial Statements for further discussion;
- a pre-tax gain of $4.1 billion on the sale of ALICO in 2010;
- a pre-tax loss of approximately $1.7 billion on the sale of AGF in 2010;

a pre-tax loss of $2.8 billion recognized in 2009 related to the sale of Nan Shan, as well as an additional loss on sale of $874 million recognized in 2010; and

tax effects of the above transactions, notably the impact of non-deductible goodwill impairments and the change in investment in subsidiaries, which was principally related to changes in the estimated U.S. tax liability with respect to the planned sales.

See Notes 4 and 22 to the Consolidated Financial Statements for further discussion of discontinued operations.

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SEGMENT RESULTS

AIG presents and discusses its financial information in the following manner, which it believes is most meaningful to its financial statement users. AIG analyzes the operating performance of its segments as follows:

Chartis underwriting profit (loss), which is derived by reducing net premiums earned by claims and claims adjustment expenses incurred and underwriting expenses, and is before net investment income, net realized capital gains (losses), bargain purchase gain and other income (expense) net;

SunAmerica and Aircraft Leasing Operating income (loss), which is before net realized capital gains (losses) and related DAC and SIA amortization; and

Results from discontinued operations and net gains (losses) on sales of divested businesses are excluded from these measures.

AIG believes that these measures allow for a better assessment and enhanced understanding of the operating performance of each business by highlighting the results from ongoing operations and the underlying profitability of its businesses. When such measures are disclosed, reconciliations to GAAP pre-tax income are provided.

In order to align financial reporting with changes made during 2011 to the manner in which AIG's chief operating decision makers review the businesses to assess performance and make decisions about resources to be allocated, AIG changed its segments in the third quarter of 2011. See Note 3 to the Consolidated Financial Statements for additional information on AIG's segment changes.

Prior period amounts were reclassified to conform to the current period presentation for the above items. Additionally, certain other reclassifications have been made to prior period amounts in the Consolidated Statement of Operations and Consolidated Balance Sheet to conform to the current period presentation.

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

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**	**Percentage Change** **2011 vs. 2010**	**2010 vs. 2009**
Total revenues:					
Chartis	**$ 40,702**	$ 37,196	$ 35,023	9%	6%
SunAmerica	**15,315**	14,747	11,366	4	30
Aircraft Leasing	**4,457**	4,718	4,992	(6)	(5)
Total reportable segments	**60,474**	56,661	51,381	7	10
Other Operations	**4,079**	21,405	25,264	(81)	(15)
Consolidation and eliminations	**(316)**	(540)	(1,198)	41	55
Total	**64,237**	77,526	75,447	(17)	3
Pre-tax income (loss):					
Chartis	**1,698**	(116)	164	NM	NM
SunAmerica	**2,910**	2,712	(1,179)	7	NM
Aircraft Leasing	**(1,005)**	(729)	1,385	(38)	NM

Total reportable segments	**3,603**	1,867	370	93	405
Other Operations	**(4,699)**	15,893	(14,193)	NM	NM
Consolidation and eliminations	**31**	176	(484)	(82)	NM
Total	**$ (1,065)**	$ 17,936	$ (14,307)	NM%	NM%

Chartis Operations

Chartis is a leading property-casualty and general insurance organization with over 44,000 employees serving more than 70 million clients around the world. During 2011, Chartis completed a reorganization of its operations and now presents its financial information in two operating segments Commercial Insurance and Consumer Insurance as well as a Chartis Other operations category. Previously, Chartis presented its financial information

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under Chartis U.S. and Chartis International. Prior period amounts have been reclassified to conform to the current year presentation.

As previously noted, AIG presents and discusses its financial information in a manner it believes is most meaningful to its financial statement users. AIG analyzes the operating performance of Chartis using underwriting profit (loss) and pre-tax income (loss). Underwriting profit (loss) is derived by reducing net premiums earned by claims and claims adjustment expenses incurred and underwriting expenses. Net premiums written are initially deferred and earned based upon the terms of the underlying policies for short duration contracts. The unearned premium reserve constitutes deferred revenues which are generally recognized in earnings ratably over the policy period. Net premiums written for long duration contracts are earned when due from the policyholder. Net premiums written reflect the premiums retained after purchasing reinsurance protection.

Chartis, along with most property and casualty insurance companies, uses the loss ratio, the expense ratio and the combined ratio as measures of underwriting performance. The loss ratio is the sum of claims and claims adjustment expenses incurred divided by net premiums earned. The expense ratio is underwriting expenses, which consist of acquisition costs plus other insurance expenses, divided by net premiums earned. The combined ratio is the sum of the loss ratio and the expense ratio. These ratios are relative measurements that describe, for every $100 of net premiums earned, the amount of claims and claims adjustment expenses, and other underwriting expenses that would be incurred. A combined ratio of less than 100 indicates an underwriting profit and over 100 indicates an underwriting loss.

The underwriting environment varies across countries and products, as does the degree of litigation activity, all of which affect such ratios. In addition, investment returns, local taxes, cost of capital, regulation, product type and competition can have an effect on pricing and consequently on profitability as reflected in underwriting profit and associated ratios.

Chartis will continue to assess the performance of its operating segments based in part on underwriting profit, loss ratio, expense ratio and combined ratio. Chartis believes these metrics provide long-term measures of the performance of the business compared to historical results and peer companies. In addition, Chartis is developing new value based metrics that provide management shorter-term measures to evaluate its performance across multiple lines and various countries. As an example, Chartis has implemented a risk-adjusted profitability model as a business performance measure, which it will continue to refine. Along with underwriting results, this risk-adjusted profitability model incorporates elements of capital allocations, costs of capital and net investment income. Chartis believes that such performance measures will allow it to manage changes in its business mix.

Investment income is allocated to the Commercial Insurance and Consumer Insurance segments based on an internal investment income allocation model. The model estimates investable funds based upon the loss reserves, unearned premium and a capital allocation for each segment. The investment income allocation is calculated based on the estimated investable funds and risk-free yields (plus an illiquidity premium) consistent with the approximate duration of the liabilities. The actual yields in excess of the allocated amounts and the investment income from the assets not attributable to the Commercial Insurance and Consumer Insurance segments are assigned to Chartis Other.

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

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Chartis Results

The following table presents Chartis results:

Years Ended December 31, *(in millions)*	2011	2010	2009	Percentage Change 2011 vs. 2010	Percentage Change 2010 vs. 2009
Underwriting results:					
Net premiums written	**$ 34,840**	$ 31,612	$ 30,653	10%	3%
Decrease in unearned premiums	**849**	909	1,608	(7)	(43)
Net premiums earned	**35,689**	32,521	32,261	10	1
Claims and claims adjustment expenses incurred	**27,949**	27,867	25,362	-	10
Underwriting expenses	**10,972**	10,114	9,497	8	6
Underwriting loss	**(3,232)**	(5,460)	(2,598)	41	(110)
Investing and other results:					
Net investment income	**4,348**	4,392	3,292	(1)	33
Net realized capital gains (losses)	**587**	(49)	(530)	NM	91
Bargain purchase gain	**-**	332	-	NM	NM
Other income (expense) net*	**(5)**	669	-	NM	NM
Pre-tax income (loss)	**$ 1,698**	$ (116)	$ 164	NM%	NM%

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

2011 and 2010 Comparison

Chartis recognized pre-tax income in 2011 compared to a pre-tax loss in 2010 primarily due to the decrease in the loss ratio, partially offset by the effect of increased catastrophe losses in 2011, detailed as follows:

Net prior year adverse loss development, net of premiums and loss-sensitive premium adjustments, decreased from $4.3 billion in 2010 to $72 million in 2011.

The combined ratio declined to 109.0 in 2011 from 116.8 in 2010. Catastrophe losses were $3.3 billion in 2011 compared to $1.1 billion in 2010. The combined ratio, excluding catastrophe losses, was 99.8 in 2011, compared to 113.5 in 2010, a 13.7 point improvement.

Net realized capital gains on sales of fixed maturity securities increased in connection with Chartis' strategy to better align investment allocations with current overall performance and income tax planning objectives.

Also, Chartis realized an increase in net premiums written primarily related to the acquisition of Fuji, which Chartis began consolidating on July 1, 2010, and in the Commercial Insurance property lines, which experienced improved pricing and modifications to its reinsurance program.

2010 and 2009 Comparison

Chartis reported a pre-tax loss in 2010 compared to pre-tax income in 2009 primarily due to the increase in the net prior year adverse loss development, net of premiums and loss-sensitive premium adjustments, from $2.8 billion in 2009 to $4.3 billion in 2010. In addition, catastrophe losses increased by $1.0 billion. These were partially offset by an increase in net premiums written, primarily related to the Fuji acquisition, as well as improved market conditions and the impact of gains in 2010 related to the acquisition of Fuji and the sale of the Otemachi Building.

Chartis Net Premiums Written

Net premiums written are the sales of an insurer, adjusted for reinsurance premiums assumed and ceded, during a given period. Net premiums earned are the revenue of an insurer for covering risk during a given period. Net premiums written are a measure of performance for a sales period while net premiums earned are a measure of performance for a coverage period. From the period in which the premiums are written until the period in which they are recognized, the amount is part of the unearned premium reserve.

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The following table presents Chartis net premiums written by major line of business:

Years Ended December 31, *(in millions)*	2011	2010	2009	Percentage Change 2011 vs. 2010	Percentage Change 2010 vs. 2009
Commercial Insurance:					
Casualty	**$ 9,819**	$ 9,945	$ 10,492	(1)%	(5)%
Property	**3,928**	3,172	3,526	24	(10)
Specialty	**3,545**	3,342	3,467	6	(4)
Financial lines	**4,177**	4,007	3,976	4	1
Total Commercial Insurance	**21,469**	20,466	21,461	5	(5)
Consumer Insurance:					
Accident & health	**6,006**	5,442	5,015	10	9
Personal lines	**6,579**	5,281	4,081	25	29
Life insurance	**756**	333	-	127	NM
Total Consumer Insurance	**13,341**	11,056	9,096	21	22
Other	**30**	90	96	(67)	(6)
Total net premiums written	**$ 34,840**	$ 31,612	$ 30,653	10%	3%

The following table presents the effect of the acquisition of Fuji on Chartis net premiums written:

Years Ended December 31, *(in millions)*	2011	2010
Chartis Net Premiums Written:		
Commercial Insurance, excluding Fuji	**$ 21,125**	$ 20,381
Consumer Insurance, excluding Fuji	**9,713**	9,394
Other	**30**	90
Total net premiums written, excluding Fuji	**30,868**	29,865
Fuji Commercial Insurance	**344**	85
Fuji Consumer Insurance	**3,628**	1,662
Total Fuji net premiums written*	**3,972**	1,747
Total Commercial Insurance	**21,469**	20,466
Total Consumer Insurance	**13,341**	11,056
Total Other	**30**	90
Total net premiums written	**$ 34,840**	$ 31,612

* *For the year ended December 31, 2011, results reflect the effects of the full year of Fuji operations, while the corresponding 2010 period reflects the effects of Fuji for only two quarters, because Chartis began consolidating Fuji's operating results on July 1, 2010.*

2011 and 2010 Comparison

Chartis' net premiums written increased in 2011 compared to 2010 due to the Fuji acquisition, the improvement in foreign currency exchange rates, primarily in the Japanese Yen, and further growth in the strategic higher value lines of business. These increases were partially offset by the decline in Commercial Casualty business in 2011 and more specifically the effects of risk management initiatives in workers' compensation and certain other lines of business in Chartis. They also reflect Chartis' continued commitment to maintain price discipline in lines where market rates are unsatisfactory. Excluding the effects of the Fuji acquisition, Chartis' net premiums written increased in 2011 by 3.4 percent compared to 2010.

The year ended December 31, 2011 reflects net premiums written related to Fuji of $4.0 billion compared to $1.7 billion in 2010. The year ended December 31, 2011 also reflects the effects of overall improvements in ratable exposures (i.e., asset values, payrolls and sales), general pricing improvement and retrospective premium adjustments on loss-sensitive contracts.

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Chartis has continued a strategy that started in 2010 to improve the allocation of its reinsurance between traditional reinsurance markets and capital markets. As part of this strategy, Chartis has secured $1.45 billion in protection for U.S. hurricanes and earthquakes through three separate catastrophe bond transactions. In 2011, Chartis secured $575 million in a bond transaction and in 2010, $875 million through two separate bond transactions. These bond transactions in 2011 and 2010 reduced net premiums written by approximately $201 million and $208 million, respectively.

Growing higher value Consumer business continues to be a key strategy. Total Consumer Insurance net premiums written increased 21 percent for the year ended December 31, 2011 compared to 2010. Excluding the effects of foreign exchange and the Fuji acquisition, Consumer Insurance net premiums written declined by one percent, primarily due to the non-renewal of certain programs in the U.S. and Canada region that did not meet internal performance targets.

In 2011, management implemented certain initiatives designed to provide for a more effective use of capital, including:

- restructuring the renewals of certain Commercial Casualty loss-sensitive programs from a retrospectively rated premium structure to a loss reimbursement deductible structure; and

- the decision to cease writing excess workers' compensation business as a stand-alone product.

The effect of these actions decreased premiums in 2011 by approximately $0.6 billion. However, given the capital intensive nature of these classes of casualty business, Chartis expects that over time, these actions will improve its results.

2010 and 2009 Comparison

Chartis' net premiums written increased in 2010 compared to 2009, primarily due to the Fuji acquisition and, to a lesser extent, strategic growth in higher value lines of business. Excluding the effects of the Fuji transaction, Chartis' net premiums written decreased in 2010 by 2.6 percent compared to 2009. This decrease is primarily due to declines in Commercial businesses in the U.S. and other developed markets, as well as the effects of risk management initiatives in the U.S. and Canada region designed to reduce catastrophe-exposed business in property and overall exposure in Chartis' long-tail casualty lines. The decrease also reflects Chartis' commitment to maintain price discipline in lines where market rates are unsatisfactory, as well as overall rate declines and a decline in ratable exposures such as workers' compensation.

Further, during 2010, Chartis entered into two separate three-year reinsurance transactions, secured through the issuance of catastrophe bonds, which provide protection from U.S. hurricanes and earthquakes, and reduced 2010 net premiums written by approximately $208 million.

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

Years Ended December 31,	**2011 vs. 2010**	**2010 vs. 2009**
Increase in original currency*	**7.3%**	1.8%
Foreign exchange effect	**2.9**	1.3
Increase as reported in U.S. dollars	**10.2%**	3.1%

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

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Chartis Underwriting Ratios

The following table summarizes the Chartis combined ratios based on GAAP data and the impact of catastrophe losses, prior year development and related reinstatement premiums and premium adjustments on loss-sensitive contracts on the Chartis consolidated loss and combined ratios:

				Increase (Decrease)	
Years Ended December 31,	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Loss ratio	**78.3**	85.7	78.6	(7.4)	7.1
Catastrophe losses and reinstatement premiums	**(9.2)**	(3.3)	(0.1)	(5.9)	(3.2)
Prior year development net of premium adjustments and including reserve discount	**(0.4)**	(13.2)	(8.6)	12.8	(4.6)
Loss ratio, as adjusted	**68.7**	69.2	69.9	(0.5)	(0.7)
Expense ratio	**30.7**	31.1	29.4	(0.4)	1.7
Combined ratio	**109.0**	116.8	108.0	(7.8)	8.8
Catastrophe losses and reinstatement premiums	**(9.2)**	(3.3)	(0.1)	(5.9)	(3.2)
Prior year development net of premium adjustments and including reserve discount	**(0.4)**	(13.2)	(8.6)	12.8	(4.6)
Combined ratio, adjusted	**99.4**	100.3	99.3	(0.9)	1.0

Loss Ratios

The following table presents the components of net prior year adverse development for Chartis:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Gross prior year adverse loss development	**$ 211**	$ 4,850	$ 2,758
Increase in loss reserve discount	**33**	(562)	(81)
Returned/(additional) premium on loss-sensitive business	**(172)**	(8)	118
Net prior year adverse loss development	**$ 72**	$ 4,280	$ 2,795

The decrease in the loss ratio for 2011 compared to 2010 reflects the substantial decrease in the net prior year loss development, net of premiums and loss-sensitive premium adjustments in 2011 as shown in the table above and to a lesser extent the improvement in foreign currency exchange rates. The decrease in the loss ratio was partially offset by the effect of increased catastrophe losses in 2011 compared to 2010.

This decrease in the adjusted 2011 loss ratio was partially due to the effect of the Fuji acquisition offset by an increase in the 2011 accident year loss ratio for the Specialty Workers' Compensation and Excess Casualty business (within the U.S. and Canada region) and the Primary Casualty and Professional Indemnity businesses (within the Europe region).

The 2011 net adverse loss development charge of $72 million, primarily relates to the primary casualty, workers' compensation, and environmental business lines, partially offset by the net favorable loss development in the financial lines and excess casualty lines.

The loss ratio for Chartis increased in 2010 compared to 2009, primarily as a result of the net adverse loss development for prior accident years recorded in 2010.

Approximately 80 percent of the 2010 net prior year adverse loss development charge of $4.3 billion relates to the asbestos, excess casualty, excess workers' compensation, and primary workers' compensation lines. Further, 83 percent of this charge relates to accident years 2007 and prior (accident years before the financial crisis in 2008) and 65 percent relates to accident years 2005 and prior (accident years prior to the start of the managed reduction in these long-tail lines of business).

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Most of the 2009 net adverse loss development charge of $2.8 billion relates to excess casualty, excess workers' compensation and the asbestos lines of business. Further, approximately 95 percent relates to accident years 2005 and prior.

Writings in long-tail lines of business that were the drivers of the reserve charges in 2010 and 2009 have been reduced since 2006. In the case of asbestos, since 1985, standard policies have contained an absolute exclusion for asbestos and pollution-related damages.

The following table presents Chartis catastrophe losses by major event:

Year Ended December 31, (in millions)	2011 Commercial Insurance	2011 Consumer Insurance	2011 Total	2010 Commercial Insurance	2010 Consumer Insurance	2010 Total
Event:[(a)]						
Tohoku Catastrophe[(b)]	$ **667**	$ **524**	$ **1,191**	$ -	$ -	$ -
New Zealand Christchurch earthquakes	**344**	**7**	**351**	-	-	-
Chile earthquake	**-**	**-**	**-**	289	2	291
Midwest & Southeast U.S. tornadoes	**383**	**14**	**397**	-	-	-
Thailand floods	**366**	**2**	**368**	-	-	-
Hurricane Irene	**296**	**73**	**369**	-	-	-
All other events	**525**	**95**	**620**	711	64	775
Claims and claim expenses	**2,581**	**715**	**3,296**	1,000	66	1,066
Reinstatement premiums	**11**	**-**	**11**	10	--	10
Total catastrophe-related charges	$ **2,592**	$ **715**	$ **3,307**	$ 1,010	$ 66	$ 1,076

(a) *Events shown in the above table are catastrophic events, for which the net impact to Chartis is in excess of $200 million each. All other events include 13 events in 2010 and 14 events in 2011 that are considered catastrophic but the net impact of which remains below the $200 million itemization threshold. Catastrophe losses for 2009 are not presented above as there was one significant catastrophe event, flooding in the Southwestern United States, totaling $53 million for Commercial Insurance.*

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

Expense Ratios

The expense ratio decreased in 2011 compared to 2010, primarily due to the effect of including Fuji results for a full year and the effects of foreign exchange. These decreases were partially offset by Chartis' increased investments in a number of strategic initiatives during 2011, including the implementation of improved regional governance and risk management capabilities, the implementation of global accounting and claims systems, preparation for Solvency II and certain other legal entity restructuring initiatives.

The expense ratio increased in 2010 compared to 2009 primarily due to Chartis' strategy to continue the enhancement and build-out of its financial systems. In addition, during 2010 Chartis recorded increased expenses relating to long-term incentive programs that will continue to align employee performance incentive programs with profitability, capital management, risk management, and other performance measures. Further, increased acquisition expenses reflect increased regulatory assessments, more specifically in the workers' compensation lines, and new marketing agreements with select strategic distribution partners. These increases were partially offset by an overall decline in the expense ratio relating to the acquisition of Fuji.

Chartis Investing and Other Results

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

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As discussed earlier, investment income is allocated to the Commercial Insurance and Consumer Insurance segments based on an internal investment income allocation model. See Segment Results Chartis Operations for more information.

The following table presents Chartis investing and other results:

Years Ended December 31, *(in millions)*		**2011**		**2010**		**2009**	**Percentage Change** 2011 vs. 2010	2010 vs. 2009
Net investment income	$	**4,348**	$	4,392	$	3,292	(1)%	33%
Net realized capital gains (losses)		**587**		(49)		(530)	NM	91
Bargain purchase gain		**-**		332		-	NM	NM
Other income (expense) net*		**(5)**		669		-	NM	NM
Investing and other results	$	**4,930**	$	5,344	$	2,762	(8)%	93%

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

2011 and 2010 Comparison

Net investment income: Overall in 2011, net investment income decreased slightly due to declines in private equity and hedge fund income as well as increases in investment expenses. These decreases were largely offset by increases in interest income. The decrease in private equity and hedge fund income reflects the decline in the overall equity markets during the second half of 2011. The increase in investment expenses in 2011 resulted mainly from increases in both internal and external investment management fees. The interest income increase relates to the redeployment of cash and short term instruments into longer term, higher yield securities. In addition, 2011 reflects a full year of interest income related to Fuji, which has been consolidated by Chartis since July 1, 2010.

Net realized capital gains (losses): Increases are due to gains on the sales of fixed maturity securities in connection with the strategy discussed above to better align Chartis' investment allocations with current overall performance and income tax objectives; a decrease in other-than-temporary impairment charges; gains from improvements in foreign currency exchange rates, primarily the strengthening of the Japanese Yen against the U.S. Dollar; and gains from derivative instruments that do not qualify for hedge accounting, resulting primarily from declining long term interest rates. These derivative instruments economically hedge products that provide benefits over an extended period of time.

These gains were partially offset by impairments recognized within other invested assets, primarily life settlement contracts. For the year ended December 31, 2011 and 2010, impairment charges of $351 million and $78 million, respectively, were recorded by Chartis related to life settlement contracts, including approximately $38 million and $4 million of impairments, respectively, associated with life insurance policies issued by SunAmerica life insurance companies that are eliminated in consolidation. Life settlement contracts are evaluated for impairment on a contract-by-contract basis. A contract is identified as potentially impaired if its undiscounted future net cash flows are less than the current carrying value of such contract. Life settlement contracts are impaired, and written down to fair value, when the carrying value of the contract is greater than the estimated fair value.

During 2011, Chartis began receiving updated medical information for its life settlement contracts as a result of an enhanced process in which information on individual insured lives is requested on a routine basis. In cases where updated information indicates that an individual's health has improved, an impairment loss may arise as a result of revised estimates of net cash flows from the related contract. This had the general effect of decreasing the projected net cash flows on a number of contracts, resulting in an increase in the number of contracts identified as potentially impaired when compared to previous analyses. Further, the domestic operations of Chartis refined their fair values based upon the availability of recent medical information.

Bargain purchase gain: On March 31, 2010 Chartis purchased additional voting shares in Fuji which resulted in the effective control and consolidation of Fuji. This acquisition resulted in a bargain purchase gain of $0.3 billion, which was included in the Consolidated Statement of Income (Loss) in Other Income. The bargain purchase gain is primarily attributable to the depressed market value of Fuji's common stock, which Chartis believes was the result of macro-economic, capital market and regulatory factors in Japan coupled with Fuji's financial condition and results of operations. Chartis anticipates that the bargain purchase gain will not be subject to U.S. or foreign income tax because the gain would only be recognized for tax purposes upon the sale of the Fuji shares.

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Other income (expense) net: In May 2009, AIG completed the legal sale of its interest in the Otemachi Building in Japan, including the land and development rights. The transaction initially did not qualify as a sale for accounting purposes at that time, due to AIG's continued involvement with the property, which did not end until December 2010. As a result, AIG recognized a gain of approximately $1.3 billion in pre-tax income, of which $669 million was included in the Chartis results in 2010.

2010 and 2009 Comparison

Net investment income: The increase in 2010 was primarily the result of an increase in the value of partnership investments as market conditions improved in 2010, while 2009 included losses from an equity method investment.

Net realized capital losses: Net realized capital losses for Chartis declined in 2010 compared to 2009 due to increased gains on sales of fixed maturity and equity securities and lower other-than-temporary impairment charges as market conditions continued to improve.

Bargain purchase gain: During 2010, Chartis recognized a bargain purchase gain of $332 million in connection with the acquisition of Fuji.

Other income (expense) net: Represents the Chartis portion of the gain on the sale of AIG's Otemachi Building in Japan.

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

Commercial Insurance

Commercial Insurance Results

The following table presents Commercial Insurance results:

Years Ended December 31, *(in millions)*	**2011**	2010	2009	**Percentage Change** 2011 vs. 2010	2010 vs. 2009
Underwriting results:					
Net premiums written	**$ 21,469**	$ 20,466	$ 21,461	5%	(5)%
Decrease in unearned premiums	**827**	1,006	1,645	(18)	(39)
Net premiums earned	**22,296**	21,472	23,106	4	(7)
Claims and claims adjustment expenses incurred	**18,953**	19,001	18,920	-	-
Underwriting expenses	**5,847**	5,752	5,658	2	2
Underwriting loss	**(2,504)**	(3,281)	(1,472)	24	(123)
Net investment income	**3,248**	3,348	3,883	(3)	(14)
Pre-tax income	**$ 744**	$ 67	$ 2,411	NM%	(97)%

Commercial Insurance Net Premiums Written

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

Years Ended December 31,	**2011 vs. 2010**	**2010 vs. 2009**

Increase (decrease) in original currency*	**3.7%**	(4.9)%
Foreign exchange effect	**1.2**	0.3
Increase (decrease) as reported in U.S. dollars	**4.9%**	(4.6)%

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

2011 and 2010 Comparison

Commercial Insurance net premiums written increased in 2011 compared to 2010 primarily due to:

- increases in Property lines driven by positive pricing trends and reinsurance modifications resulting in increased retentions; the rate environment for Property has been particularly strong for the U.S. and the Far East region;

- an increase in additional premiums on Commercial Casualty's loss-sensitive business of $164 million compared to 2010. Loss-sensitive business relates to policies whose premiums vary with the level of underlying losses. Accordingly, in 2011, additional premiums of $172 million were recognized relating to additional prior year losses. The corresponding 2010 period reflects the effects of additional premiums of $8 million;

- general improvements in rates, in particular for workers' compensation;

- continued growth and market penetration across growth economy nations; and

- improvements in foreign exchange currency rates.

Offsetting these increases was an approximately $0.6 billion decrease in net premiums written relating to the change of certain policy forms at renewal from retrospectively rated premium structures to loss reimbursement deductible structures.

2010 and 2009 Comparison

Commercial Insurance net premiums written decreased in 2010 compared to 2009 primarily due to:

- risk management initiatives resulting in the reduction of aggregate exposures in certain Commercial Casualty, Property and Specialty lines of business;

- lower workers' compensation net premiums written due to declining rates, lower employment levels, increased competition and Chartis' continued strategy to maintain price discipline;

- decreases in Financial lines due to declines in various classes of professional liability business, which were negatively affected to a greater extent than other classes by the credit crisis, and Chartis' decisions to reduce writings within environmental coverage and not to renew a credit card indemnification program that did not meet internal profitability targets;

- decreases in Commercial Casualty due to a combination of declines in the construction, real estate and transportation classes and limited availability of capital for new projects, which impacted general liability and commercial umbrella business. These were offset by improved pricing, increased new business submissions and improved retention resulting from increased stabilization of developed economies after the financial crisis that began in 2008; and

- effects of three-year reinsurance agreements, secured through catastrophe bonds, which provided protection from U.S. hurricanes and earthquakes, and reduced 2010 net premiums written by approximately $208 million.

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Commercial Insurance Underwriting Ratios

The following table presents the Commercial Insurance combined ratios based on GAAP data and the impact of catastrophe losses, prior year development and related reinstatement premiums and premium adjustments on loss-sensitive contracts on the Commercial Insurance consolidated loss and combined ratios:

				(Increase) (Decrease)	
Years Ended December 31,	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Loss ratio	**85.0**	88.5	81.9	(3.5)	6.6
Catastrophe losses and reinstatement premiums	**(11.6)**	(4.7)	(0.2)	(6.9)	(4.5)
Prior year development net of premium adjustments and including reserve discount	**0.3**	(10.2)	(6.7)	10.5	(3.5)
Loss ratio, as adjusted	**73.7**	73.6	75.0	0.1	(1.4)
Expense ratio	**26.2**	26.8	24.5	(0.6)	2.3
Combined ratio	**111.2**	115.3	106.4	(4.1)	8.9
Catastrophe losses and reinstatement premiums	**(11.6)**	(4.7)	(0.2)	(6.9)	(4.5)
Prior year development net of premium adjustments and including reserve discount	**0.3**	(10.2)	(6.7)	10.5	(3.5)
Combined ratio, adjusted	**99.9**	100.4	99.5	(0.5)	0.9

The following table presents the components of net prior year adverse development for Commercial Insurance:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Gross prior year adverse loss development	**$ 98**	$ 2,594	$ 1,536
Increase in loss reserve discount	**(40)**	(400)	(81)
Returned (additional) premium on loss-sensitive business	**(172)**	(8)	118
Net prior year adverse (favorable) loss development	**$ (114)**	$ 2,186	$ 1,573

Loss Ratios

The loss ratio improved in 2011 compared to 2010 due to the effect of net prior year adverse loss development in 2010 and an increase in additional premiums from loss-sensitive business in 2011. These items were largely offset by the increase in catastrophe losses in 2011.

The loss ratio increased in 2010 compared to 2009 primarily due to the net prior year adverse loss development in 2010 for the excess casualty and workers' compensation lines of business.

For a more detailed discussion of Net Prior Year Loss Development, see the Liability for Unpaid Claims and Claims Adjustment Expense section that follows.

Expense Ratios

The expense ratio improved in 2011 compared to 2010 due to the effects of foreign currency exchange rates and overall growth in the business. In addition, the expense ratio reflects the effects of continued enhancements to regional governance, risk management capabilities and investments within growth economy nations.

The expense ratio increased in 2010 compared to 2009 due to a change in the mix of business from low commission casualty business to higher commission property business. In addition, the increase in general operating expenses reflects Chartis' strategy to continue the enhancement and build-out of its financial systems. Further, during 2010, Chartis recorded increased expenses relating to long-term incentive programs that will continue to align employee performance incentive programs with profitability, capital management, risk management, and other performance measures

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Consumer Insurance

Consumer Insurance Results

The following table presents Consumer Insurance results:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**	**Percentage Change** 2011 vs. 2010	2010 vs. 2009
Underwriting results:					
Net premiums written	**$ 13,341**	$ 11,056	$ 9,096	21%	22%
Increase in unearned premiums	**(17)**	(97)	(41)	82	(137)
Net premiums earned	**13,324**	10,959	9,055	22	21
Claims and claims adjustment expenses incurred	**8,797**	6,686	5,315	32	26
Underwriting expenses	**4,857**	4,171	3,690	16	13
Underwriting profit (loss)	**(330)**	102	50	NM	104
Net investment income	**354**	301	351	18	(14)
Pre-tax income	**$ 24**	$ 403	$ 401	(94)%	-%

Consumer Insurance Net Premiums Written

2011 and 2010 comparison

Consumer Insurance net premiums written increased in 2011 compared to 2010 primarily due to the effect of including Fuji results for a full year, the improvement in foreign currency exchange rates, primarily the Japanese Yen, and further growth in the strategic higher value lines of business. Excluding the effects of the Fuji acquisition, Consumer Insurance net premiums written increased 3 percent in 2011, primarily due to:

A&H net premiums written increased by approximately 10 percent. Excluding the effects of the Fuji acquisition, A&H net premiums written increased by approximately seven percent primarily as a result of the execution of Chartis' growth strategies in key lines and the effect of foreign exchange. The Far East region continued to implement favorable marketing programs and benefited from rate increases implemented in 2010. Growth was also demonstrated in key geographic markets such as Asia Pacific, including China, EMEA, including Continental Europe, and Israel, and in targeted areas, such as direct marketing and travel insurance.

Personal Lines net premiums written increased by approximately 25 percent. Excluding the effects of the Fuji acquisition, Personal Lines net premiums decreased one percent, primarily as a result of Chartis' decisions to not renew certain programs in the U.S. and Canada region that did not meet performance targets. Personal Lines continued to grow in key markets, including Japan and Latin America and in key lines, such as specialized personal lines products.

Life net premiums written increased primarily as a result of the full year effect of the Fuji acquisition and as a result of the execution of new business strategies at Fuji Life Insurance Company Ltd.

2010 and 2009 comparison

Consumer Insurance net premiums written increased in 2010 compared to 2009 primarily due to the acquisition of Fuji.

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Consumer Insurance is transacted in most major foreign currencies. The following table summarizes the effect of changes in foreign currency exchange rates on the growth of Consumer Insurance net premiums written:

Years Ended December 31,	2011 vs. 2010	2010 vs. 2009
Increase in original currency[(a)(b)]	**14.7%**	17.8%
Foreign exchange effect	**6.0**	3.8
Increase as reported in U.S. dollars	**20.7%**	21.6%

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

(b) *Primarily due to the effect of the Fuji acquisition.*

Consumer Insurance Underwriting Ratios

The following table presents the Consumer Insurance combined ratios based on GAAP data and the impact of catastrophe losses, prior year development and related reinstatement premiums and premium adjustments on loss-sensitive contracts on the Consumer Insurance consolidated loss and combined ratios:

				Increase (Decrease)	
Years Ended December 31,	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Loss ratio	**66.0**	61.0	58.7	5.0	2.3
Catastrophe losses and reinstatement premiums	**(5.3)**	(0.6)	-	(4.7)	(0.6)
Prior year development net of premium adjustments and including reserve discount	**(0.7)**	0.6	(0.8)	(1.3)	1.4
Loss ratio, as adjusted	**60.0**	61.0	57.9	(1.0)	3.1
Expense ratio	**36.5**	38.1	40.8	(1.6)	(2.7)
Combined ratio	**102.5**	99.1	99.5	3.4	(0.4)
Catastrophe losses and reinstatement premiums	**(5.3)**	(0.6)	-	(4.7)	(0.6)
Prior year development net of premium adjustments and including reserve discount	**(0.7)**	0.6	(0.8)	(1.3)	1.4
Combined ratio, adjusted	**96.5**	99.1	98.7	(2.6)	0.4

The following table presents the components of net prior year adverse development for Consumer Insurance:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Gross prior year adverse (favorable) loss development	**$ 86**	$ (66)	$ 75
Net prior year adverse (favorable) loss development	**$ 86**	$ (66)	$ 75

Loss Ratios

The loss ratio increased in 2011 compared to 2010, primarily due to increased catastrophe losses in 2011. During 2011, Consumer Insurance recorded net prior year adverse loss development of $86 million, primarily due to programs in the U.S. and Canada region that are not being renewed. This compares to net prior year favorable loss development of $66 million in 2010.

The increase in the loss ratio in 2010 compared to 2009 reflects the effect of Fuji in 2010 and increased claims in Japan and Europe. In 2010, Consumer Insurance recorded favorable net prior year loss development of $66 million primarily due to favorable development in the Asia Pacific region. This compares to net prior year adverse loss development in 2009 of $75 million primarily due to reserve development in Japan and Latin America.

For a more detailed discussion of Net Prior Year Loss Development, see the Liability for Unpaid Claims and Claims Adjustment Expense section that follows.

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Expense Ratios

The expense ratio decreased in 2011 compared to 2010 primarily due to the effects of including Fuji results for a full year. Fuji has a lower average expense ratio than the rest of the Consumer Insurance business due in part to its business mix.

The expense ratio decreased in 2010 compared to 2009 primarily due to the net benefit from Fuji net deferred acquisition costs, which were capitalized subsequent to the Fuji acquisition.

Chartis Other

Chartis Other Results

The following table presents Chartis Other results:

Years Ended December 31, *(in millions)*	**2011**	2010	2009	Percentage Change 2011 vs. 2010	Percentage Change 2010 vs. 2009
Underwriting results:					
Net premiums written	**$ 30**	$ 90	$ 96	(67)%	(6)%
(Increase) decrease in unearned premiums	**39**	-	4	NM	NM
Net premiums earned	**69**	90	100	(23)	(10)
Claims and claims adjustment expenses incurred	**199**	2,180	1,127	(91)	93
Underwriting expenses	**268**	191	149	40	28
Underwriting loss	**(398)**	(2,281)	(1,176)	83	(94)
Investing and other results:					
Net investment income	**746**	743	(942)	-	NM
Net realized capital gains (losses)	**587**	(49)	(530)	NM	91
Bargain purchase gain	**-**	332	-	NM	NM
Other income (expense) net*	**(5)**	669	-	NM	NM
Pre-tax income (loss)	**$ 930**	$ (586)	$ (2,648)	NM	78%

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

The following table presents the components of net prior year adverse development for Chartis Other:

Years Ended December 31, *(in millions)*	**2011**	2010	2009
Gross prior year adverse loss development	**$ 27**	$ 2,322	$ 1,147
Increase in loss reserve discount	**73**	(162)	-

Net prior year adverse loss development	**$**	**100**	$	2,160	$	1,147

Underwriting Results

Substantially all of the net premiums written in the above table relate to excess workers' compensation. The excess workers' compensation line of business is subject to premium audits (upon the expiration of the underlying policy) and, as a result, Chartis Other will reflect the effects of premium audit activity through subsequent years.

Given the run-off nature of the legacy lines of business and the nature of the expenses included in Chartis Other, management has determined that traditional underwriting measures of loss ratio, expense ratio and combined ratio do not provide an appropriate measure of underwriting performance. Therefore, underwriting ratios are not presented for Chartis Other.

2011 and 2010 Comparison

For the year 2011 compared to 2010, the decrease in net premiums written and claims and claim adjustment expenses reflect the effects of the run-off activities associated with the excess workers' compensation business, while the underwriting expenses increased as a result of certain expenses related to corporate initiatives and expense allocations of AIG Parent.

2010 and 2009 Comparison

For the year 2010 compared to 2009, the increase in claims and claim adjustment expenses incurred relates to net prior year adverse loss development in 2010.

The overall increase in underwriting expenses relates to increases for strategic Chartis initiatives, including global accounting and claims system implementations, Solvency II and certain other legal entity restructuring initiatives.

For a discussion of Investing and other results for Chartis Other, see Chartis Results Chartis Investing and Other Results.

Liability for Unpaid Claims and Claims Adjustment Expense

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

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

At December 31, *(in millions)*	**2011**	**2010**
Other liability occurrence	**$ 22,526**	$ 23,583
International	**17,726**	16,583
Workers' compensation	**17,420**	17,683
Other liability claims made	**11,216**	11,446
Property	**6,165**	3,846
Auto liability	**3,081**	3,337
Mortgage guaranty credit	**3,046**	4,220
Products liability	**2,416**	2,377
Medical malpractice	**1,690**	1,754
Accident and health	**1,553**	1,444
Commercial multiple peril	**1,134**	1,006
Aircraft	**1,020**	1,149
Fidelity/surety	**786**	934
Other	**1,366**	1,789
Total	**$ 91,145**	$ 91,151

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

AIG's gross loss reserves represent the accumulation of estimates of ultimate losses, including estimates for IBNR and loss expenses. The methods used to determine loss reserve estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments resulting from this review are currently reflected in pre-tax income. Because loss reserve estimates are subject to the outcome of future events, changes in estimates are unavoidable given that loss trends vary and time is often required for changes in trends to be recognized and confirmed. Reserve changes that increase 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.

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

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

Years Ended December 31, *(in millions)*	**2011**	2010
Chartis:		
Commercial Insurance	**$ 58,625**	$ 57,324
Consumer Insurance	**5,362**	5,030
Other*	**3,992**	5,720
Total Chartis	**67,979**	68,074
Other operations Mortgage Guaranty	**2,846**	3,433
Net liability for unpaid claims and claims adjustment expense at end of	**$ 70,825**	$ 71,507

* *In 2011, the net loss reserves reflect the cession under the June 17, 2011 transaction with National Indemnity Company (NICO) of $1.7 billion. See Liability for Unpaid Claims and Claims Adjustment Expense Asbestos and Environmental Reserve for additional discussion of the NICO transaction.*

Discounting of Reserves

At December 31, 2011, net loss reserves reflect a loss reserve discount of $3.18 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. Beginning in 2011, a portion of these discounted reserves were ceded to a new Pennsylvania domiciled AIG subsidiary. However, this had no impact on the calculation of the overall discount. Certain other asbestos business that was written by Chartis is discounted based on the investment yields of the companies and the payout pattern for this business. The discount consists of the following: $777 million tabular discount for workers' compensation in the U.S. and Canada operations of Chartis and $2.32 billion non-tabular discount for workers' compensation in the U.S. and Canada operations of Chartis; and $88 million non-tabular discount for asbestos for Chartis.

Results of the Reserving Process

AIG believes that its net loss reserves are adequate to cover net losses and loss expenses as of December 31, 2011. While AIG regularly reviews the adequacy of established loss reserves, there can be no assurance that AIG's ultimate loss reserves will not develop adversely and materially exceed AIG's loss reserves as of December 31, 2011. In the opinion of management, such adverse development and resulting increase in reserves are not likely to have a material adverse effect on AIG's consolidated financial condition, although such events could have a material adverse effect on AIG's consolidated results of operations for an individual reporting period. See Item 1A. Risk Factors Casualty Insurance Reserves.

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The following table presents the rollforward of net loss reserves:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Net liability for unpaid claims and claims adjustment expense at beginning of year	**$ 71,507**	$ 67,899	$ 72,455
Foreign exchange effect	**353**	(126)	1,416
Acquisitions[(a)]	**-**	1,538	-
Dispositions[(b)]	**-**	(87)	(9,657)
Reduction of net loss reserves due to NICO transaction	**(1,703)**	-	-
Losses and loss expenses incurred[(c)]:			
Current year	**27,590**	24,074	27,354
Prior years, other than accretion of discount[(d)]	**195**	4,182	2,771
Prior years, accretion of discount	**375**	(181)	313
Losses and loss expenses incurred	**28,160**	28,075	30,438
Losses and loss expenses paid[(c)]:			
Current year	**11,534**	9,873	11,079
Prior years	**15,958**	15,919	15,673
Losses and loss expenses paid	**27,492**	25,792	26,752
Activity of discontinued operations	**-**	-	(1)
Net liability for unpaid claims and claims adjustment expense at end of year	**$ 70,825**	$ 71,507	$ 67,899

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

(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.*

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

(d) *In 2011, includes $(414) million, $145 million and $413 million related to excess casualty, commercial specialty workers' compensation and environmental, respectively. In 2010, includes $1.1 billion, $793 million and $1.5 billion related to excess casualty, excess workers' compensation and asbestos, respectively. In 2009, includes $1.5 billion, $956 million and $151 million related to excess casualty, excess workers' compensation and asbestos, respectively.*

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

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**

Prior Accident Year Development by Operating Segment:			
Chartis:			
Commercial Insurance	**$ 98**	$ 2,594	$ 1,536
Consumer Insurance	**86**	(66)	75
Other	**27**	2,322	1,147
Total Chartis	**211**	4,850	2,758
Other businesses:			
Mortgage Guaranty	**(16)**	(668)	38
Other*	**-**	-	(25)
Total Other businesses	**(16)**	(668)	13
Prior years, other than accretion of discount	**$ 195**	$ 4,182	$ 2,771

* *Includes Transatlantic which 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.*

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Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Prior Accident Year Development by Major Class of Business:			
Excess casualty	**$ (414)**	$ 1,071	$ 1,507
D&O and related management liability	**(167)**	(94)	(39)
Excess workers' compensation	**2**	793	956
Healthcare	**(45)**	(75)	(92)
Environmental	**413**	14	25
Asbestos and environmental (1984 and prior)	**30**	1,503	155
Commercial risk	**265**	224	-
Primary (specialty) workers' compensation	**145**	518	37
All other, net	**(34)**	228	222
Prior years, other than accretion of discount	**$ 195**	$ 4,182	$ 2,771

Years Ended December 31, *(in millions)*	**2011**	**Calendar Year** **2010**	**2009**
Prior Accident Year Development by Accident Year:			
Accident Year			
2010	**$ 402**		
2009	**117**	$ (61)	
2008	**(294)**	286	$ 289
2007	**(172)**	528	(57)
2006	**(273)**	199	(91)
2005	**(164)**	113	18
2004	**(16)**	134	182
2003	**13**	73	73
2002	**(8)**	97	126
2001 and prior	**590**	2,813	2,231
Prior years, other than accretion of discount	**$ 195**	$ 4,182	$ 2,771

Offsetting the unfavorable development were related additional premiums on loss-sensitive business of $172 million and $8 million in 2011 and 2010, respectively.

In determining the loss development from prior accident years, AIG conducts analysis to determine the change in estimated ultimate loss for each accident year for each class of business. For example, if loss emergence for a class of business is different than expected for certain accident years, the actuaries examine the indicated effect such emergence would have on the reserves of that class of business. In some cases, the higher or lower than expected emergence may result in no clear change in the ultimate loss estimate for the accident years in question, and no adjustment would be made to the reserves for the class of business for prior accident years. In other cases, the higher or lower than expected emergence may result in a larger change, either favorable or unfavorable, than the difference between the actual and expected loss emergence. Such additional analyses were conducted for each class of business, as appropriate, in 2011 to determine the loss development from prior accident years for that period. As part of its reserving process, AIG also considers notices of claims received with respect to emerging and/or evolving issues, such as those related to the U.S. mortgage and housing market.

See Chartis Results herein and Other Operations   Other Operations Results   Mortgage Guaranty for further discussion of net loss development.

Net Loss Development by Class of Business

The following is a discussion of the primary reasons for the development in 2011, 2010 and 2009 of those classes of business that experienced significant prior accident year developments during the three-year period. See Asbestos and Environmental Reserves below for a further discussion of asbestos and environmental reserves and development on pre-1985 exposures.

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Excess Casualty

Excess Casualty Background

Loss reserves pertaining to the excess casualty class of business are generally included in the other liability occurrence line of business, with a small portion of the excess casualty reserves included in the Other liability claims made line of business, as presented in the loss reserves by major lines of business table above. Excess Casualty reserves experienced favorable development in calendar year 2011 and significant adverse loss development in 2010 and 2009.

Excess Casualty Discussion and Analysis

During calendar year 2011 the Excess Casualty business segment experienced better than expected loss emergence, based on expected emergence using the shorter termed development pattern from the year-end 2010 reserve analysis noted below. Accident years 2009 and prior exhibited actual emergence approximately 20 percent better than expected during 2011, while accident year 2010 experienced some large catastrophic losses causing its results to be worse than expected. The loss development pattern used in the year-end 2011 reserve analysis was based on a shorter termed average of approximately three years, consistent with 2010. This pattern, coupled with the better than expected emergence seen during the year, resulted in the estimated ultimate losses improving by approximately $273 million for this class of business, when compared to the year-end 2010 estimates. The accident year contribution to this improvement is adverse development of $225 million in accident year 2010 offset by favorable development of $62 million to accident year 2009, $163 million to accident year 2008, $90 million to accident year 2007, $115 million to accident year 2006, $40 million to accident year 2005, and $29 million for accident years 2004 and prior in the aggregate.

The increase in loss costs driving this development in 2009 and 2010 resulted primarily from medical inflation, which increased the economic loss component of tort claims; advances in medical care, which extended the life span of severely injured claimants; and larger jury verdicts, which increased the value of severe tort claims.

AIG increased its estimate for its year-end 2009 loss reserve for excess casualty liabilities by more than $1 billion, primarily relating to accident years 2006 and prior. The majority of the 2009 charge resulted from management's decision to place greater reliance on the experience of the five most recent calendar years, resulting in significantly higher loss development factor assumptions for the year-end 2009 loss reserve review. For the year-end 2009 loss reserve review, in response to significantly higher than expected loss emergence, AIG reviewed the indicated reserves for excess casualty under a variety of loss development assumptions. These assumptions ranged from long term loss development averages, which used all or nearly all of the historical data for this class, to short term averages which used only the latest three to five calendar years of loss development experience. AIG gave greater recognition to the recent calendar year experience, resulting in significantly higher loss development factor assumptions for the year-end 2009 loss reserve review. This change in loss development assumptions increased the excess casualty reserves by approximately $815 million for accident years 2006 and prior. Additionally, in conjunction with the selection of higher loss development factors described above, AIG assigned greater credibility to the emerging loss development factors for product aggregate-related claims, which are reviewed separately. This resulted in an increase of approximately $195 million in reserves, primarily for accident years 2000 and prior.

Even with these higher loss development factors, during the fourth quarter of 2010, loss emergence across all accident years for excess casualty was approximately $115 million worse than expected and was concentrated in accident years 2007 and 2008. The concentration of such losses in more recent accident years resulted in much higher loss estimates at year-end 2010 because the experience is extrapolated not only for these years, but to all years through the application of the loss development factors. The higher than expected loss emergence in the last half of 2010, particularly in the fourth quarter, led management to select higher loss development factors than those selected in 2009 because greater weight was placed on the adverse development in the recent calendar years (i.e., the three most recent calendar years). In these low frequency/high severity classes of business, AIG applied significant judgment to select an appropriate averaging period for loss development that is long enough to be statistically credible while recognizing changing trends in a sufficiently responsive manner. AIG also considered recent trends in large products liability verdicts in the United States given the impact of the recession and the impact of anti-corporate sentiment in the mind of the general public, as well as the high attachment points at which this business is written. This change from basing the loss development factor assumptions on the last five years provides still greater recognition of the recent calendar-year experience than the assumptions used in the 2009 loss reserve review, and in management's judgment was warranted based on the developing trends described above.

Approximately $80 million of the reserve strengthening in the fourth quarter of 2010 pertained to accident year 2009, whereas approximately $200 million was attributable to accident year 2008, $340 million to accident year 2007, $195 million to accident year 2006, $100 million to accident years 1999 and prior, and approximately $95 million in the aggregate to accident years 2000 through 2005.

Excess Workers' Compensation

Excess Workers' Compensation Background:

This class of business has an extremely long tail and is one of the most challenging classes of business to reserve for because it is highly sensitive to small changes in assumptions in the rate of medical inflation or the longevity of injured workers, for example which can have a significant effect on the ultimate reserve estimate. Furthermore claims estimates for this line are highly sensitive to:

- the assumed future rate of inflation and other economic conditions in the United States;
- changes in the legal, regulatory, judicial and social environment;
- the expected impact of recently enacted health care reform on workers' compensation costs;
- underlying policy pricing, terms and conditions;
- claims settlement trends that can materially alter the mix and ultimate cost of claims;
- changes in claims reporting practices of insureds and third-party administrators;
- the cost of new and additional treatment specialties, such as "pain management";
- changes in injured worker longevity; and
- territorial experience differences (across states and within regions in a state).

There was no material development recognized for this class in 2011. AIG experienced significant adverse development for this class during 2010 and 2009 of $825 million and $925 million, respectively.

Excess Workers' Compensation Discussion and Analysis

With the passage of the Affordable Care Act in March 2010, management concluded that there is increased vulnerability to the risk of further cost-shifting to the excess workers' compensation class of business in particular. Settlement efforts can also be affected by changes to evaluation protocols implemented by the Centers for Medicare & Medicaid Services in 2009, which are expected to result in future prescription drug costs being borne by workers' compensation insurers to a significantly greater degree than in the past and thus likely to lead to further deteriorating trends for the excess workers' compensation class of business.

In addition, approximately 20 percent of the reported claims emanate from excess of loss reinsurance contracts provided by Chartis to other third-party insurers in accident years 2002 and prior. These reinsurance contracts generally include the so-called "follow the fortunes clause" whereby claims management is performed by the ceding insurers and the outcomes of these efforts are binding on Chartis as the reinsurer. Chartis has virtually no ability to affect the outcomes of these claims.

Moreover, underwriting actions in recent years have led to a significant increase in insured retention levels, which reduce the frequency of moderate- severity losses but extend the time period of first report of claim, causing further unpredictability in loss development patterns.

During the fourth quarter of 2010, AIG conducted its comprehensive loss reserve analysis using a variety of actuarial techniques to project future loss development for this very long-tail class. As part of this analysis, AIG compared and contrasted the traditional techniques that have been used for this class with an alternative approach that focuses more explicitly on projecting the effect of future calendar year trends, placing less weight on prior-period loss development ratios due to the increased evidence of changes to the claims environment. To this end, AIG engaged a third-party actuary that uses such alternative approaches to supplement the extensive analysis performed by AIG as it conducted its comprehensive loss review of its year-end loss reserves. The third-party actuary provided an additional perspective for the excess workers' compensation class by using a method that management considered to be particularly suited to the excess workers' compensation class, given its long-tail nature. These various actuarial analyses all indicated a substantial increase in loss estimates from the prior-year level. AIG responded to this increased loss indication by evaluating a range of loss development scenarios including developing the tail factors that extrapolate the claims projections as far as 40 years into the future. Due to the extremely long-tail nature of this class, the impact of the selected change in loss development assumptions affected many accident years and led to an overall strengthening of approximately $825 million, before discount. Approximately $430 million of the reserve strengthening in the fourth quarter of 2010 pertained to accident years 1999 and prior, with an additional $160 million attributable to accident year 2000, $140 million to accident year 2001, $80 million to accident year 2002, and only approximately $10 million attributable to 2003 and subsequent years.

For the year-end 2009 loss reserve review, AIG increased the loss development assumptions for this class of business, resulting in approximately a $925 million increase in reserves. The increased loss development assumptions were based on an additional actuarial study performed by AIG in response to the emergence of losses in accident years 1999 and prior. This study analyzed the development patterns emanating from the AIG claims staff projections of expected ultimate cost for each open claim.

Director and Officer (D&O) and Related Management Liability Classes of Business

D&O and Related Management Liability Classes of Business Background

Loss reserves pertaining to D&O and related management liability classes of business are included in the Other liability claims made line of business, as presented in the loss reserves by major lines of business table above. AIG experienced favorable development in 2011, 2010 and 2009. The favorable development over the three-year period related primarily to accident years 2005-2007, 2010, and, to a lesser extent, accident years 2001 and 2002.

D&O and Related Management Liability Classes of Business Discussion and Analysis

Loss cost trends for D&O and related management liability classes of business were adverse in accident years 2002 and prior due to a variety of factors, including an increase in frequency and severity of corporate bankruptcies; the increase in the frequency of financial restatements; the sharp rise in market capitalization of publicly traded companies; and the increase in the number of initial public offerings. The 2003 through 2006 period was marked by a significant reduction in claims related to these factors; thus the expected loss ratios initially established for these accident years have developed favorably, particularly for 2004 and 2005. Beginning in accident year 2007, claims relating to the credit crisis resulted in increased overall claim activity. This increase in claim activity began to subside for accident years 2008 and subsequent, with a reduction in credit crisis related claim activity and a decrease in the higher severity securities class action claims in the more recent accident years. AIG utilizes ground-up claims projections by AIG claims staff as a benchmark to select the loss reserves for this business; these projections are updated annually.

For the year-end 2011 loss reserve review, AIG's actuaries took into account the favorable development for accident years 2011, 2010 and 2003 through 2008 as well as the continuing favorable development observed in the ground up claim projections by AIG claims staff over the past five years. This favorable development was partially offset by adverse development for accident year 2009.

For the year-end 2010 loss reserve review, AIG's actuaries took into account the favorable development from prior accident years, as well as the continuing favorable development observed in the ground-up claims projections by AIG claims staff over the past five years. This favorable development was partially offset by higher than expected initial claim projections for accident year 2009.

For the year-end 2009 loss reserve review, AIG's actuaries took into account the favorable development for accident years 2007 and prior, as well as adverse development from accident year 2008. In response to the emerging favorable development observed in the ground-up claims projections by AIG claims staff over the past several years, AIG considered both the higher than expected initial claim projections for accident year 2008 as well as the favorable developments for the claims projections from the earlier accident years in determining the loss ratio for accident year 2009.

Healthcare Background and Discussion and Analysis

Healthcare business written by the U.S. and Canada region of Chartis produced moderate favorable developments in 2011, 2010 and 2009. Healthcare loss reserves have benefited from favorable market conditions and an improved legal environment in accident years 2002 and subsequent, following a period of adverse loss trends and market conditions that began in the mid 1990's.

Primary Workers' Compensation (Commercial Risks, Commercial Specialty Workers' Compensation and Energy)

Primary (Specialty) Workers' Compensation Background

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

A total of $518 million of adverse loss development was recorded for Commercial Specialty Workers' Compensation in 2010. Significant improvements in claims handling, which had the effect of accelerating claims recognition (without increasing overall loss costs), were believed to be the cause of the earlier emergence of claims. However, the adverse loss emergence during 2010 led AIG to conclude that the worsening experience was attributable to a credible upward trend in the emergence of losses, rather than claims handling. AIG's conclusion that the worsening experience necessitated a strengthening of the reserves was confirmed by an independent third-party actuarial review during the fourth quarter of 2010. Approximately 75 percent of the year-end 2010 reserve strengthening for this business pertained to accident years 2007 through 2009.

Similarly, Commercial Risks strengthened workers' compensation reserves in 2010, as the adverse loss emergence led AIG to conclude that the worsening experience was attributable to an upward trend in the emergence of losses, rather than to claims handling. This was further confirmed by an independent third party review.

Primary Workers' Compensation Discussion and Analysis

The Commercial Risk, Commercial Specialty Workers' Compensation and Energy divisions contributed $265 million, $145 million and $115 million, respectively, of adverse development in calendar year 2011. The vast majority of this adverse development emanates from primary workers compensation exposure and the vast majority of the workers compensation adverse development comes from accident year 2010. In 2011, losses for accident year 2010 continued to emerge at higher levels than anticipated by the loss ratios established at prior year end. A key structural driver was the effect of high unemployment on the frequency of higher severity lost time claims. The economic environment diminished the opportunities of employers to offer "light duty" return-to-work mitigation strategies. In addition, AIG continues to see the effect of rising medical costs from the deployment of pain management strategies. The increase in lost time frequency and the adverse effects of medical cost trends has resulted in higher loss ratios than anticipated at prior year end.

For each of the three sub-segments, AIG's conclusion that the worsening experience necessitated a strengthening of the reserves was confirmed by an independent third-party actuarial review during 2011.

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Environmental

Environmental Background and Discussion and Analysis

Chartis maintains an active environmental insurance business written through its Chartis Environmental business unit. The reserves associated with this unit's business are evaluated and reported separately from the asbestos and environmental reserves associated with standard General Liability and Umbrella policies discussed in "Asbestos and Environmental Reserves". The following discussion relates solely to the Chartis Environmental reserves.

The estimation of loss reserves relating to environmental claims is subject to a high degree of uncertainty 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. Reinsurance balances can also be subject to a higher level of disputes and legal collection activity, given the complex nature of coverage issues.

Historically, Chartis actuaries have used traditional actuarial methods, such as loss development, Bornhuetter-Ferguson, and indexing methods to assess the reserves for the Chartis Environmental products. However, recent emerging claims activity has led Chartis to conclude that these traditional actuarial methods do not address to its satisfaction the unique nature of the underlying exposures enough for those environmental policies with large ultimate loss potential (greater than $5 million per policy) and high policy limits. Chartis Environmental strengthened its reserves in the first nine months of 2011 by $217 million, partly due to large reserve increases on individual claims. Consequently, an in depth ground-up review of the existing exposures was conducted by actuaries and claims analysts. As a result of this claim review as well as other factors, Chartis strengthened the reserves by an additional $196 million in the fourth quarter of 2011. Approximately 80 percent of the 2011 development was associated with accident years 2003 and prior.

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

See Chartis Results herein for further discussion of net loss development.

Overview of Loss Reserving Process

Chartis loss reserves can generally be categorized into two distinct groups. One group is short-tail classes of business consisting principally of property, personal lines and certain casualty classes. The other group is long-tail casualty classes of business which includes excess and umbrella liability, D&O, professional liability, medical malpractice, workers' compensation, general liability, products liability and related classes.

Short-Tail Reserves

For operations writing short-tail coverages, such as property coverages, the process of recording quarterly loss reserves is generally geared toward maintaining an appropriate reserve for the outstanding exposure, rather than determining an expected loss ratio for current business. For example, the IBNR reserve required for a class of property business might be expected to approximate 20 percent of the latest year's earned premiums, and this level of reserve would generally be maintained regardless of the loss ratio emerging in the current quarter. The 20 percent factor would be adjusted to reflect changes in rate levels, loss reporting patterns, known exposure to unreported losses, or other factors affecting the particular class of business.

Long-Tail Reserves

Estimation of ultimate net losses and loss expenses (net losses) for long-tail casualty classes of business is a complex process and depends on a number of factors, including the class and volume of business involved. Experience in the more recent accident years of long-tail casualty classes of business shows limited statistical credibility in reported net losses because a relatively low proportion of net losses would be reported claims and expenses and an even smaller percentage would be net losses paid. Therefore, IBNR would constitute a relatively high proportion of net losses.

AIG's carried net long-tail loss reserves are tested using loss trend factors that AIG considers appropriate for each class of business. A variety of actuarial methods and assumptions is normally employed to estimate net losses for long-tail casualty classes of business. These methods ordinarily involve the use of loss trend factors intended to reflect the annual growth in loss costs from one accident year to the next. Loss trend factors reflect many items including changes in claims handling, exposure and policy forms, current and future estimates of monetary inflation and social inflation and increases in litigation and awards. These factors are periodically reviewed and adjusted, as appropriate, to reflect emerging trends which are based upon past loss experience. Thus, many factors are implicitly considered in estimating the year-to-year growth in loss costs.

A number of actuarial assumptions are generally made in the review of reserves for each class of business. For longer-tail classes of business, actuarial assumptions generally are made with respect to the following:

- Loss trend factors which are used to establish expected loss ratios for subsequent accident years based on the projected loss ratios for prior accident years.

- Expected loss ratios for the latest accident year (i.e., accident year 2011 for the year-end 2011 loss reserve analysis) and, in some cases for accident years prior to the latest accident year. The expected loss ratio generally reflects the projected loss ratio from prior accident years, adjusted for the loss trend (see above) and the effect of rate changes and other quantifiable factors on the loss ratio. For low-frequency, high-severity classes such as excess casualty, expected loss ratios generally are used for at least the three most recent accident years.

- Loss development factors which are used to project the reported losses for each accident year to an ultimate basis. Generally, the actual loss development factors observed from prior accident years would be used as a basis to determine the loss development factors for the subsequent accident years.

AIG records quarterly changes in loss reserves for each of its many Chartis classes of business. The overall change in AIG's loss reserves is based on the sum of these classes of business changes. For most long-tail classes of business, the process of recording quarterly loss reserve changes involves determining the estimated current loss ratio for each class of coverage. This loss ratio is multiplied by the current quarter's net earned premium for that class of coverage to determine the current accident quarter's total estimated net incurred loss and loss expense. The change in loss reserves for the quarter for each class is thus the difference between the net incurred loss and loss expense, estimated as described above, and the net paid losses and loss expenses in the quarter. Also, any change in estimated ultimate losses from prior accident years, either positive or negative, is reflected in the loss reserve for the current quarter.

Details of the Loss Reserving Process

The process of determining the current loss ratio for each class of business is based on a variety of factors. These include, but are not limited to, the following considerations: prior accident year and policy year loss ratios; rate changes; changes in coverage, reinsurance, or mix of business; and actual and anticipated changes in external factors affecting results, such as trends in loss costs or in the legal and claims environment. The current loss ratio for each class of business reflects input from actuarial, underwriting and claims staff and is intended to represent management's best estimate of the current loss ratio after reflecting all of the factors described above. At the close of each quarter, the assumptions underlying the loss ratios are reviewed to determine if the loss ratios remain appropriate. This process includes a review of the actual claims experience in the quarter, actual rate changes achieved, actual changes in coverage, reinsurance or mix of business, and changes in certain other factors that may affect the loss ratio. When this review suggests that the initially determined loss ratio is no longer appropriate, the loss ratio for current business is changed to reflect the revised assumptions.

A comprehensive loss reserve review is conducted annually for each Chartis subsidiary. During 2011 AIG significantly expanded the scope of its third-party actuarial reviews to cover a larger number of U.S. and international classes of business from the more complex reserves of long-tail classes of business. These reviews were concluded in the second, third and fourth quarters of 2011. In 2010, third-party actuarial reserve reviews were generally limited to certain U.S. long-tail lines of business and were concentrated in the fourth quarter of 2010. These detailed reviews are conducted for each class of business for each subsidiary, and thus consist of hundreds of individual analyses. The purpose of these reviews is to confirm the appropriateness of the reserves carried by each of the individual subsidiaries, and therefore of AIG's overall carried reserves. The reserve analysis for each class of business is performed by the actuarial personnel who are most familiar with that class of business. In completing these detailed actuarial reserve analyses, the actuaries are required to make numerous assumptions, including the selection of loss development factors and loss cost trend factors. They are also required to determine and select the most appropriate actuarial methods to employ for each business class. Additionally, they must determine the appropriate segmentation of data from which the adequacy of the reserves can be most accurately tested. In the course of these detailed reserve reviews an actuarial central estimate of the loss reserve is determined. The sum of these central estimates for each class of business for each subsidiary provides an overall actuarial central estimate of the loss reserve for that subsidiary. The ultimate process by which the actual carried reserves are determined considers both the internal actuarial central estimate and numerous other internal and external factors including an assessment of economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, changes in medical cost trends (inflation, intensity and utilization of medical services) underlying policy pricing, terms and conditions, and claims handling, as well as third-party actuarial reviews that are periodically performed for key classes of business. Loss reserve development can also be affected by commutations of assumed and ceded reinsurance agreements.

Actuarial Methods for Major Classes of Business

In testing the reserves for each class of business, a determination is made by AIG's actuaries as to the most appropriate actuarial methods. This determination is based on a variety of factors including the nature of the claims associated with the class of business, such as the frequency or severity of the claims. Other factors considered include the loss development characteristics associated with the claims, the volume of claim data available for the applicable class, and the applicability of various actuarial methods to the class. In addition to determining the actuarial methods, the actuaries determine the appropriate loss reserve groupings of data. For example, AIG writes a great number of unique subclasses of professional liability. For pricing or other purposes, it is appropriate to evaluate the profitability of each subclass individually. However, for purposes of estimating the loss reserves for professional liability, it is appropriate to combine the subclasses into larger groups. The greater degree of credibility in the claims experience of the larger groups may outweigh the greater degree of homogeneity of the individual subclasses. This determination of data segmentation and actuarial methods is carefully considered for each class of business. The segmentation and actuarial methods chosen are those which together are expected to produce the most robust estimate of the loss reserves.

Actuarial methods used by AIG for most long-tail casualty classes of business include loss development methods and expected loss ratio methods, including "Bornhuetter Ferguson" methods described below. Other methods considered include frequency/severity methods, although these are generally used by AIG more for pricing analysis than for loss reserve analysis. Loss development methods utilize the actual loss development patterns from prior accident years to project the reported losses to an ultimate basis for subsequent accident years. Loss development methods generally are most appropriate for classes of business which exhibit a stable pattern of loss development from one accident year to the next, and for which the components of the classes have similar development characteristics. For example, property exposures would generally not be combined into the same class as casualty exposures, and primary casualty exposures would generally not be combined into the same class as excess casualty exposures. Expected loss ratio methods are generally used by AIG where the reported loss data lacks sufficient credibility to utilize loss development methods, such as for new classes of business or for long-tail classes at early stages of loss development.

Expected loss ratio methods rely on the application of an expected loss ratio to the earned premium for the class of business to determine the loss reserves. For example, an expected loss ratio of 70 percent applied to an earned premium base of $10 million for a class of business would generate an ultimate loss estimate of $7 million. Subtracting any reported paid losses and loss expense would result in the indicated loss reserve for this class. "Bornhuetter Ferguson" methods are expected loss ratio methods for which the expected loss ratio is applied only to the expected unreported portion of the losses. For example, for a long-tail class of business for which only 10 percent of the losses are expected to be reported at the end of the accident year, the expected loss ratio would be applied to the 90 percent of the losses still unreported. The actual reported losses at the end of the accident year would be added to determine the total ultimate loss estimate for the accident year. Subtracting the reported paid losses and loss expenses would result in the indicated loss reserve. In the example above, the expected loss ratio of 70 percent would be multiplied by 90 percent. The result of 63 percent would be applied to the earned premium of $10 million resulting in an estimated unreported loss of $6.3 million. Actual reported losses would be added to arrive at the total ultimate losses. If the reported losses were $1 million, the ultimate loss estimate under the "Bornhuetter Ferguson" method would be $7.3 million versus the $7 million amount under the expected loss ratio method described above. Thus, the "Bornhuetter Ferguson" method gives partial credibility to the actual loss experience to date for the class of business. Loss development methods generally give full credibility to the reported loss experience to date. In the example above, loss development methods would typically indicate an ultimate loss estimate of $10 million, as the reported losses of $1 million would be estimated to reflect only 10 percent of the ultimate losses.

A key advantage of loss development methods is that they respond quickly to any actual changes in loss costs for the class of business. Therefore, if loss experience is unexpectedly deteriorating or improving, the loss development method gives full credibility to the changing experience. Expected loss ratio methods would be slower to respond to the change, as they would continue to give more weight to the expected loss ratio, until enough evidence emerged for the expected loss ratio to be modified to reflect the changing loss experience. On the other hand, loss development methods have the disadvantage of overreacting to changes in reported losses if in fact the loss experience is not credible. For example, the presence or absence of large losses at the early stages of loss development could cause the loss development method to overreact to the favorable or unfavorable experience by assuming it will continue at later stages of development. In these instances, expected loss ratio methods such as "Bornhuetter Ferguson" have the advantage of recognizing large losses without extrapolating unusual large loss activity onto the unreported portion of the losses for the accident year. AIG's loss reserve reviews for long-tail classes typically utilize a combination of both loss development and expected loss ratio methods. Loss development methods are generally given more weight for accident years and classes of business where the loss experience is highly credible. Expected loss ratio methods are given more weight where the reported loss experience is less credible, or is driven more by large losses. Expected loss ratio methods require sufficient information to determine the appropriate expected loss ratio. This information generally includes the actual loss ratios for prior accident years, and rate changes as well as underwriting or other changes which would affect the loss ratio. Further, an estimate of the loss cost trend or loss ratio trend is required in order to allow for the effect of inflation and other factors which may increase or otherwise change the loss costs from one accident year to the next.

Frequency/severity methods generally rely on the determination of an ultimate number of claims and an average severity for each claim for each accident year. Multiplying the estimated ultimate number of claims for each accident year by the expected average severity of each claim produces the estimated ultimate loss for the accident year. Frequency/severity methods generally require a sufficient volume of claims in order for the average severity to be predictable. Average severity for subsequent accident years is generally determined by applying an estimated annual loss cost trend to the estimated average claim severity from prior accident years. Frequency/severity methods have the advantage that ultimate claim counts can generally be estimated more quickly and accurately than can ultimate losses. Thus, if the average claim severity can be accurately estimated, these methods can more quickly respond to changes in loss experience than other methods. However, for average severity to be predictable, the class of business must consist of homogeneous types of claims for which loss severity trends from one year to the next are reasonably consistent. Generally these methods work best for high frequency, low severity classes of business such as personal auto. AIG also utilizes these methods in pricing subclasses of professional liability.

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The following is a discussion of actuarial methods applied by major class of business:

Class of Business or Category and Actuarial Method	Application of Actuarial Method
Excess Casualty	
AIG generally uses a combination of loss development methods and expected loss ratio methods for excess casualty classes. Frequency/severity methods are generally not used in isolation as the vast majority of reported claims do not result in a claim payment. In addition, the average severity varies significantly from accident year to accident year due to large losses which characterize this class of business, as well as changing proportions of claims which do not result in a claim payment.	Expected loss ratio methods are generally used for at least the three latest accident years, due to the relatively low credibility of the reported losses. The loss experience is generally reviewed separately for lead umbrella classes and for other excess classes, due to the relatively shorter tail for lead umbrella business. Automobile-related claims are generally reviewed separately from non-auto claims, due to the shorter-tail nature of the automobile-related claims. Claims relating to certain latent exposures such as construction defects or exhaustion of underlying product aggregate limits are reviewed separately due to the unique emergence patterns of losses relating to these claims. The expected loss ratios used for recent accident years are based on the projected ultimate loss ratios of prior years, adjusted for rate changes, estimated loss cost trends and all other changes that can be quantified.
D&O and Related Management Liability Classes of Business	
AIG generally uses a combination of loss development methods and expected loss ratio methods for D&O and related management liability classes of business. Frequency/severity methods are generally not used in isolation for these classes as the overall losses are driven by large losses more than by claim frequency. Severity trends have varied significantly from accident year to accident year and care is required in analyzing these trends by claim type.	Expected loss ratio methods are given more weight in the two most recent accident years, whereas loss development methods are given more weight in more mature accident years. In addition to these traditional actuarial methods, AIG's actuaries used ground-up claim projections provided by AIG claims staff as a benchmark for determining the indicated ultimate losses for all accident years other than the most recent accident year. For the year-end 2011 loss reserve review, claims projections for accident years 2010 and prior were used. These classes of business reflect claims made coverage, and losses are characterized by low frequency and high severity. Thus, the claim projections can produce an overall indicator of the ultimate loss exposure for these classes by identifying and estimating all large losses.
Workers' Compensation	
AIG generally uses a combination of loss development methods and expected loss ratio methods for workers' compensation.	Expected loss ratio methods generally are given significant weight only in the most recent accident year. Workers' compensation claims are generally characterized by high frequency, low severity, and relatively consistent loss development from one accident year to the next. AIG historically has been a leading writer of workers' compensation, and thus has sufficient volume of claims experience to use development methods. AIG generally segregates California business from other business in evaluating workers' compensation reserves. Certain classes of workers' compensation, such as construction, are also evaluated separately. Additionally, AIG writes a number of very large accounts which include workers' compensation coverage. These accounts are generally priced by AIG actuaries, and to the extent appropriate, the indicated losses based on the pricing analysis may be used to record the initial estimated loss reserves for these accounts.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
Excess Workers' Compensation	
AIG generally uses a combination of loss development methods and expected loss ratio methods for excess workers' compensation.	Loss development methods are given the greater weight for mature accident years. Expected loss ratio methods are given the greater weight for the more recent accident years. Excess workers' compensation is an extremely long-tail class of business, with loss emergence extending for decades. Therefore there is limited credibility in the reported losses for many of the more recent accident years. For the mature accident years, AIG's actuaries use claims projections provided by AIG claims staff to help determine the loss development factors for this class of business.
General Liability	
AIG generally uses a combination of loss development methods and expected loss ratio methods for primary general liability or products liability classes.	For certain classes of business with sufficient loss volume, loss development methods may be given significant weight for all but the most recent one or two accident years, whereas for smaller or more volatile classes of business, loss development methods may be given limited weight for the five or more most recent accident years. Expected loss ratio methods would be used for the more recent accident years for these classes. The loss experience for primary general liability business is generally reviewed at a level that is believed to provide the most appropriate data for reserve analysis. For example, primary claims made business is generally segregated from business written on an occurrence policy form. Additionally, certain subclasses, such as construction, are generally reviewed separately from business in other subclasses. For example, in the case of environmental liability, AIG's actuaries use claim projections provided by AIG claims staff for long-duration policies. Due to the fairly long-tail nature of general liability business, and the many subclasses that are reviewed individually, there is less credibility in the reported losses and increased reliance on expected loss ratio methods.
Commercial Automobile Liability	
AIG generally uses loss development methods for all but the most recent accident year for commercial automobile classes of business.	Expected loss ratio methods are generally given significant weight only in the most recent accident year.
Healthcare	
AIG generally uses a combination of loss development methods and expected loss ratio methods for healthcare classes of business. Frequency/severity methods are sometimes used for pricing certain healthcare accounts or business. However, in testing loss reserves the business is generally combined into larger groupings to enhance the credibility of the loss experience. The frequency/severity methods that are applicable in pricing may not be appropriate for reserve testing.	The largest component of the healthcare business consists of coverage written for hospitals and other healthcare facilities. Reserves for excess coverage are tested separately from those for primary coverage. For primary coverages, loss development methods are generally given the majority of the weight for all but the latest three accident years, and are given some weight for all years other than the latest accident year. For excess coverages, expected loss methods are generally given all the weight for the latest three accident years, and are also given considerable weight for accident years prior to the latest three years. For other classes of healthcare coverage, an analogous weighting between loss development and expected loss ratio methods is used. The weights assigned to each method are those that are believed to result in the best combination of responsiveness and stability.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
Professional Liability	
AIG generally uses a combination of loss development methods and expected loss ratio methods for professional liability classes of business. Frequency/severity methods are used in pricing and profitability analyses for some classes of professional liability; however, for loss reserve testing, the need to enhance credibility generally results in classes that are not sufficiently homogenous to utilize frequency/severity methods.	Loss development methods are used for the more mature accident years. Greater weight is given to expected loss ratio methods in the more recent accident years. Reserves are tested separately for claims made classes and classes written on occurrence policy forms. Further segmentations are made in a manner believed to provide an appropriate balance between credibility and homogeneity of the data.
Catastrophic Casualty	
AIG uses expected loss ratio methods for all accident years for catastrophic casualty business. This class of business consists of casualty or financial lines coverage that attach in excess of very high attachment points; thus the claims experience is marked by very low frequency and high severity. Because of the limited number of claims, loss development methods are not used.	The expected loss ratios and loss development assumptions used are based upon the results of prior accident years for this business as well as for similar classes of business written above lower attachment points. The business is generally written on a claims made basis. AIG uses ground-up claim projections provided by AIG claims staff to assist in developing the appropriate reserve.
Aviation	
AIG generally uses a combination of loss development methods and expected loss ratio methods for aviation exposures. Aviation claims are not very long-tail in nature; however, they are driven by claim severity. Thus a combination of both development and expected loss ratio methods are used for all but the latest accident year to determine the loss reserves. Frequency/severity methods are not employed due to the high severity nature of the claims and different mix of claims from year to year.	Expected loss ratio methods are used to determine the loss reserves for the latest accident year.
Personal Auto (Domestic)	
AIG generally uses frequency/severity methods and loss development methods for domestic personal auto classes.	For many classes of business, greater reliance is placed on frequency/severity methods as claim counts emerge quickly for personal auto and allow for more immediate analysis of resulting loss trends and comparisons to industry and other diagnostic metrics.
Fidelity/Surety	
AIG generally uses loss development methods for fidelity exposures for all but the latest accident year. For surety exposures, AIG generally uses the same method as for short-tail classes (discussed below).	Expected loss ratio methods are also given weight for the more recent accident years, and for the latest accident year they may be given 100 percent weight.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
Mortgage Guaranty	
AIG tests mortgage guaranty reserves using loss development methods, supplemented by an internal claim analysis by actuaries and staff who specialize in the mortgage guaranty business.	The reserve analysis projects ultimate losses for claims within each of several categories of delinquency based on actual historical experience, using primarily a frequency/severity loss development approach. Additional reserve tests are also employed, such as tests measuring losses as a percent of risk in force. Reserves are reviewed separately for each line of business considering the loss development characteristics, volume of claim data available and applicability of various actuarial methods to each line. Held reserves for mortgage guaranty insurance losses and loss adjustment expenses are established for reported mortgage loan delinquencies and estimates of delinquencies that have been incurred but have not been reported by loan servicers, based upon historical reporting trends. AIG establishes held reserves using a percentage of the contractual liability (for each delinquent loan reported) that is based upon projected claim experience for each category of delinquency, consistent in total with the overall reserve estimate. Mortgage Guaranty losses and loss adjustment expenses have been adversely affected by macroeconomic events, such as declining home prices and increasing unemployment, among other events, related to the turmoil in the financial markets. Because these macroeconomic events are subject to adverse or favorable change, the determination of the ultimate losses and loss adjustment expenses requires a high degree of judgment. Responding to these adverse macroeconomic influences, numerous government and lender loan modification programs have been implemented to mitigate mortgage losses. The loan modification programs have produced additional cures of delinquent loans in 2011 that may not continue in 2012 as some modification programs are phased out or retired. In addition, these loan modifications may re-default resulting in new losses for Mortgage Guaranty. Occurrences of fraudulent loans, underwriting violations, and other deviations from contractual terms, mostly related to the 2006 and 2007 blocks of business, have resulted in historically high levels of claim rescissions and denials (collectively referred to as rescissions) during 2011. As a result, many lenders have increased their rescission appeals activity as well as the success rate on those appeals by focusing additional resources on the process. The increased lender attention on tracking down missing loan documents along with the heightened focus on appeals of rescissions caused the estimated ultimate rescission rate (net of appeals) assumed in the loss reserves to be lower than the rescission level experienced in 2010. If this trend continues it may unfavorably affect future results. AIG believes it has provided appropriate reserves for currently delinquent loans, consistent with industry practices.

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Class of Business or Category and Actuarial Method	Application of Actuarial Method
Short-Tail Classes	
AIG generally uses either loss development methods or IBNR factor methods to set reserves for short-tail classes such as property coverages.	Where a factor is used, it generally represents a percent of earned premium or other exposure measure. The factor is determined based on prior accident year experience. For example, the IBNR for a class of property coverage might be expected to approximate 20 percent of the latest year's earned premium. The factor is continually reevaluated in light of emerging claim experience as well as rate changes or other factors that could affect the adequacy of the IBNR factor being employed.
International	
Business written by Chartis internationally includes both long-tail and short-tail classes of business. For long-tail classes of business, the actuarial methods used are analogous to those described above. However, the majority of business written by Chartis internationally is short-tail, high frequency and low severity in nature. For this business, loss development methods are generally employed to test the loss reserves.	AIG maintains a database of detailed historical premium and loss transactions in original currency for business written by Chartis internationally, thereby allowing AIG actuaries to determine the current reserves without any distortion from changes in exchange rates over time. In testing the Chartis operations, AIG's actuaries segment the data by region, country or class of business as appropriate to determine an optimal balance between homogeneity and credibility.
Loss Adjustment Expenses	
AIG determines reserves for legal defense and cost containment loss adjustment expenses for each class of business by one or more actuarial methods. The methods generally include development methods analogous to those described for loss development methods. The developments could be based on either the paid loss adjustment expenses or the ratio of paid loss adjustment expenses to paid losses, or both. Other methods include the utilization of expected ultimate ratios of paid loss expense to paid losses, based on actual experience from prior accident years or from similar classes of business.	AIG generally determines reserves for adjuster loss adjustment expenses based on calendar year ratios of adjuster expenses paid to losses paid for the particular class of business. AIG generally determines reserves for other unallocated loss adjustment expenses based on the ratio of the calendar year expenses paid to overall losses paid. This determination is generally done for all classes of business combined, and reflects costs of home office claim overhead as a percent of losses paid.
Catastrophes	
Special analyses are conducted by AIG in response to major catastrophes in order to estimate AIG's gross and net loss and loss expense liability from those events.	These analyses may include a combination of approaches, including modeling estimates, ground-up claim analysis, loss evaluation reports from on-site field adjusters, and market share estimates.

AIG's loss reserve analyses do not provide a range of loss reserve estimates. Because a large portion of the loss reserves from Chartis business relates to longer-tail casualty classes of business driven by severity rather than frequency of claims, such as excess casualty and D&O, AIG believes that developing a range around loss reserve estimates would not be meaningful. Using the reserving methodologies described above, AIG's actuaries determine their best estimate of the required reserve and advise management of that amount. An important part of AIG's internal governance process over the establishment of loss reserves is the Reserve Review Committee. This multi-disciplinary committee is comprised of senior actuarial, finance, claims, risk management and business unit executives throughout the organization. The purpose of the Reserve Review Committee is to provide oversight, policy establishment and guidance to the reserving process and, when deemed necessary, to adjust the liability for unpaid claims and claim adjustment expenses to an amount that is different than the amounts recommended by the actuaries.

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For a discussion of the sensitivity analysis on the reserve for unpaid claims and claims adjustment expenses, see Critical Accounting Estimates Liability for Unpaid Claims and Claims Adjustment Expense (Chartis and Mortgage Guaranty) herein.

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. In addition, reinsurance recoverable balances relating to asbestos and environmental loss reserves are subject to greater uncertainty due to the underlying age of the claim, underlying legal issues surrounding the nature of the coverage, and determination of proper policy period. As such, these balances tend to be subject to increased levels of disputes and legal collection activity when actually billed. The insurance industry as a whole is engaged in extensive litigation over these coverage and liability issues and is thus confronted with a continuing uncertainty in its efforts to quantify these exposures.

AIG continues to receive claims asserting injuries and damages from toxic waste, hazardous substances, and other environmental pollutants and alleged claims to cover the cleanup costs of hazardous waste dump sites, referred to collectively as environmental claims, and indemnity claims asserting injuries from asbestos.

The vast majority of these asbestos and environmental claims emanate from policies written in 1984 and prior years. Commencing in 1985, standard policies contained an absolute exclusion for pollution-related damage and an absolute asbestos exclusion was also implemented. The current Chartis Environmental policies that AIG underwrites on a claims-made basis have been excluded from the analysis. See discussion on Chartis Environmental reserves herein for further discussion.

The majority of AIG's exposures for asbestos and environmental claims are excess casualty coverages, not primary coverages. Thus, the litigation costs are treated in the same manner as indemnity amounts. That is, litigation expenses are included within the limits of the liability AIG incurs. Individual significant claim liabilities, where future litigation costs are reasonably determinable, are established on a case-by-case basis.

On June 17, 2011, Chartis completed a transaction with NICO, a subsidiary of Berkshire Hathaway, Inc., under which the bulk of Chartis' net domestic asbestos liabilities were transferred to NICO as part of Chartis' ongoing strategy to reduce its overall loss reserve development risk. The transaction with NICO covers potentially volatile U.S.-related asbestos exposures. The transaction does not cover asbestos accounts that Chartis believes have already been reserved to their limit of liability or certain other ancillary asbestos exposure assumed by Chartis subsidiaries.

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

Estimation of asbestos and environmental claims loss reserves is a subjective process and reserves for asbestos and environmental claims cannot be estimated using conventional reserving techniques such as those that rely on historical accident year loss development factors. The methods used to determine asbestos and environmental loss estimates and to establish the resulting reserves are continually reviewed and updated by management.

Significant factors which affect the trends that influence the asbestos and environmental claims estimation process are the court resolutions and judicial interpretations which broaden the intent of the policies and scope of coverage. The current case law can be characterized as still evolving, and there is little likelihood that any firm direction will develop in the near future. Additionally, the exposures for cleanup costs of hazardous waste dump sites involve issues such as allocation of responsibility among potentially responsible parties and the government's refusal to release parties from liability.

Due to this uncertainty, it is not possible to determine the future development of asbestos and environmental claims with the same degree of reliability as with other types of claims. Such future development will be affected by the extent to which courts continue to expand the intent of the policies and the scope of the coverage, as they have in the past, as well as by the changes in Superfund and waste dump site coverage and liability issues. If the asbestos and environmental reserves develop deficiently, such deficiency could have an adverse effect on AIG's future results of operations for an individual reporting period.

With respect to known environmental claims, AIG established over two decades ago a specialized environmental claims unit, which investigates and adjusts all such environmental claims. This unit evaluates these environmental claims utilizing a claim-by-claim approach that involves a detailed review of individual policy terms and exposures. Because each policyholder presents different liability and coverage issues, AIG generally evaluates exposure on a policy-by-policy basis, considering a variety of factors such as known facts, current law, jurisdiction, policy language and other factors that are unique to each policy. Quantitative techniques have to be supplemented by subjective considerations, including management judgment. Each claim is reviewed at least semi-annually utilizing the aforementioned approach and adjusted as necessary to reflect the current information.

In the environmental claims unit, AIG actively manages and pursues early resolution with respect to these claims in an attempt to mitigate its exposure to the unpredictable development of these claims. AIG attempts to mitigate its known long-tail environmental exposures by utilizing a combination of proactive claim-resolution techniques, including policy buybacks, complete environmental releases, compromise settlements, and, when appropriate, litigation.

Similarly, with respect to known asbestos claims, AIG established over two decades ago a specialized toxic tort claims unit, which historically investigated and adjusted all such asbestos claims. As part of the above mentioned NICO transaction, effective January 1, 2011, NICO assumed responsibility for claims handling related to the majority of AIG's domestic asbestos liabilities.

In the fourth quarter of 2010, management conducted its more in-depth comprehensive loss-reserve review with the assistance of its third-party actuary. The more in-depth study to determine the appropriate loss reserve estimate for its asbestos exposures includes a series of top-down and ground-up reserve analyses. To ensure it has the most comprehensive analysis possible, AIG engages an independent third-party actuarial firm to assist in assessing these exposures. The third-party actuarial firm's ground-up study uses a proprietary model to calculate the loss exposure on an insured-by-insured basis. Management believes that the accuracy of the reserve estimate is greatly enhanced through the combination of the third-party actuarial firm's industry modeling techniques and industry knowledge and management's specific account-level experience.

Key observations in 2010 from AIG's third-party actuary that were factors in informing the base-case reserve strengthening included:

- An analysis was performed on policy-specific information including, for instance, policy limits, layers of coverage, ground-up attachment points, and self-insured retentions/deductibles. This policyholder-specific data provided the third-party actuary with an ability to refine its models to produce more account-specific reserves and reduce the amount of standard-model assumptions (i.e., industry assumptions). This new information allowed the third-party actuary to consider certain policies for which assumed losses would not be allocated evenly across years (i.e., pro rata) as assumed under the standard model.

- Through the third-party actuary's review of the policy data as provided by AIG, the third-party actuary identified specific additional policies with no claim activity to date and included them in its modeling for certain accounts. These additional policies provided the actuary with the ability to replace its standard assumptions used in the pure IBNR calculation, with actual identified policies.

- During the fourth quarter of 2010, AIG and the third-party actuary increased the estimate of reserves in recognition of general industry litigation trends attempting to expand asbestos coverage theories.

- With the assistance of the third-party actuary, AIG periodically reviews its assumptions and modeling parameters used in its reserving estimates to calibrate the model to arrive at the most accurate estimate of AIG's experience. This regular calibration is a necessary step in ensuring that AIG's loss reserve estimate

considers all relevant information and produces as accurate an estimate as possible. During its 2010 loss reserve review, the third-party actuary recommended, and AIG agreed, that such changes be made to certain assumptions and model parameters.

AIG completed a top-down report year projection as well as a market share projection of its indicated asbestos and environmental loss reserves. These projections consist of a series of tests performed separately for asbestos and for environmental exposures.

For asbestos, these tests project the losses expected to be reported over the next 16 years, i.e., from 2012 through 2027, based on the actual losses reported through 2011 and the expected future loss emergence for these claims. Three scenarios were tested, with a series of assumptions ranging from more optimistic to more conservative.

For environmental claims, an analogous series of frequency/severity tests are produced. Environmental claims from future report years (i.e., IBNR) are projected out five years, i.e., through the year 2016.

At year-end 2011, AIG considered a number of factors and recent experience in addition to the results of the respective top-down and ground-up analyses performed for asbestos and environmental reserves. AIG considered the significant uncertainty that remains as to AIG's ultimate liability relating to asbestos and environmental claims. This uncertainty is due to several factors including:

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

After AIG carefully considered the recent experience compared to the results of the 2010 ground-up analysis as well as all of the above factors, no adjustment to gross and net asbestos reserves was recognized in 2011. Additionally in 2011, a moderate amount of incurred loss pertaining to the asbestos loss reserve discount is reflected in the table below and is primarily related to the reserves subject to the NICO reinsurance agreement.

Upon completion of the environmental top-down report year analysis performed in the fourth quarter of 2011, a moderate adjustment to gross and net reserves was recognized.

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

As of or for the Year Ended December 31,	**2011**		**2010**		**2009**	
(in millions)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos:						
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 5,526**	**$ 2,223**	$ 3,236	$ 1,151	$ 3,443	$ 1,200
Dispositions	**-**	**-**	(17)	(8)	(84)	(21)
Losses and loss expenses incurred	**192***	**76***	2,940	1,317	482	151
Losses and loss expenses paid	**(492)**	**(236)**	(633)	(237)	(605)	(179)
Other changes	**-**	**177**	-	-	-	-
Liability for unpaid claims and claims adjustment expense at end of year	**5,226**	**2,240**	5,526	2,223	3,236	1,151
Reduction of net loss reserves due to NICO transaction	**-**	**(1,703)**	-	-	-	-
Liability for unpaid claims and claims adjustment expense at end of year, reflecting NICO transaction	**$ 5,226**	**$ 537**	$ 5,526	$ 2,223	$ 3,236	$ 1,151
Environmental:						
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 240**	**$ 127**	$ 338	$ 159	$ 417	$ 194
Dispositions	**-**	**-**	(27)	(10)	(37)	(7)
Losses and loss expenses incurred	**33**	**27**	23	24	2	4
Losses and loss expenses paid	**(69)**	**(35)**	(94)	(46)	(44)	(32)
Liability for unpaid claims and claims adjustment expense at end of year	**$ 204**	**$ 119**	$ 240	$ 127	$ 338	$ 159
Combined:						
Liability for unpaid claims and claims adjustment expense at beginning of year	**$ 5,766**	**$ 2,350**	$ 3,574	$ 1,310	$ 3,860	$ 1,394
Dispositions	**-**	**-**	(44)	(18)	(121)	(28)
Losses and loss expenses incurred	**225**	**103**	2,963	1,341	484	155
Losses and loss expenses paid	**(561)**	**(271)**	(727)	(283)	(649)	(211)
Other changes	**-**	**177**	-	-	-	-
Liability for unpaid claims and claims adjustment expense at end of year	**5,430**	**2,359**	5,766	2,350	3,574	1,310
Reduction of net loss reserves due to NICO transaction	**-**	**(1,703)**	-	-	-	-
Liability for unpaid claims and claims adjustment expense at end of year, reflecting NICO transaction	**$ 5,430**	**$ 656**	$ 5,766	$ 2,350	$ 3,574	$ 1,310

* *Primarily represents accretion of discount.*

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

At December 31,	**2011**		**2010**		**2009**	
(in millions)	**Gross**	**Net**	**Gross**	**Net**	**Gross**	**Net**
Asbestos	**$ 3,685**	**$ 1,653**	$ 4,520	$ 1,964	$ 2,072	$ 863
Environmental	**57**	**28**	93	38	161	71
Combined	**$ 3,742**	**$ 1,681**	$ 4,613	$ 2,002	$ 2,233	$ 934

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

As of or for the Years Ended	2011			2010			2009		
December 31,	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined	Asbestos	Environmental	Combined
Claims at beginning of year	**4,933**	**4,087**	**9,020**	5,417	5,994	11,411	5,780	6,674	12,454
Claims during year:									
Opened	**141**	**207**	**348**	502	354	856	615	983	1,598
Settled	**(183)**	**(83)**	**(266)**	(247)	(125)	(372)	(243)	(215)	(458)
Dismissed or otherwise resolved	**(289)**	**(429)**	**(718)**	(739)	(2,136)	(2,875)	(735)	(1,448)	(2,183)
Other*	**841**	**-**	**841**	-	-	-	-	-	-
Claims at end of year	**5,443**	**3,782**	**9,225**	4,933	4,087	9,020	5,417	5,994	11,411

*

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

Survival Ratios Asbestos and Environmental

The following table presents AIG's survival ratios for asbestos and environmental claims at December 31, 2011, 2010 and 2009. 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 significant increase in the gross and net survival ratios at December 31, 2010 compared to December 31, 2009 relates to the reserve increases recorded in 2010. 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 December 31, 2010 by approximately 0.1 years and 0.3 years, respectively; and reduced gross and net asbestos survival ratios at December 31, 2009 by approximately 0.9 years and 1.9 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 are 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.

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

Years Ended	2011		2010		2009	
December 31,	Gross	Net*	Gross	Net	Gross	Net
Survival ratios:						
Asbestos	**9.1**	**10.3**	8.6	9.2	4.7	3.7
Environmental	**2.9**	**3.1**	3.7	3.2	4.5	3.5
Combined	**8.4**	**9.3**	8.1	8.4	4.7	3.7

* *Survival ratios are calculated consistent with the basis of presentation in the reserve activity table above, which excludes the effects of the NICO cession.*

SunAmerica Operations

SunAmerica offers a comprehensive suite of products and services to individuals and groups including term life, universal life, A&H products, fixed and variable deferred annuities, fixed payout annuities, mutual funds and financial planning. SunAmerica offers its products and services through a diverse, multi-channel distribution network that includes banks, national, regional and independent broker-dealers, affiliated financial advisors, independent marketing organizations, independent and career insurance agents, structured settlement brokers, benefit consultants and direct to-consumer platforms.

In managing SunAmerica, AIG analyzes the operating performance of each business using Operating income (loss), which is before net realized capital gains (losses) and related DAC and SIA amortization. Operating income (loss) is not a substitute for pre-tax income determined in accordance with U.S. GAAP. However, AIG believes that the presentation of Operating income (loss) enhances the understanding of the underlying profitability of the ongoing operations of SunAmerica. The reconciliations to pre-tax income are provided in the tables that follow.

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SunAmerica Results

The following table presents SunAmerica results:

Years Ended December 31,				**Percentage Change**	
(in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Domestic Life Insurance:					
Revenue:					
Premiums	**$ 2,513**	$ 2,520	$ 2,671	-%	(6)%
Policy fees	**1,478**	1,576	1,581	(6)	-
Net investment income	**3,925**	4,313	3,819	(9)	13
Other income	**3**	-	-	NM	NM
Operating expenses:					
Policyholder benefits and claims incurred	**4,510**	4,277	4,161	5	3
Interest credited to policyholder account balances	**851**	843	866	1	(3)
Amortization of deferred acquisition costs	**534**	784	716	(32)	9
Other acquisition and insurance expenses	**954**	991	1,032	(4)	(4)
Operating income	**1,070**	1,514	1,296	(29)	17
Net realized capital gains (losses)	**363**	(75)	(712)	NM	89
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital gains (losses)	**(29)**	(45)	35	36	NM
Pre-tax income	**$ 1,404**	$ 1,394	$ 619	1%	125%
Domestic Retirement Services:					
Revenue:					
Policy fees	**$ 1,227**	$ 1,134	$ 1,075	8%	5%
Net investment income	**5,957**	6,455	5,734	(8)	13
Other income	**206**	-	-	NM	NM
Operating expenses:					
Policyholder benefits and claims incurred	**104**	(1)	227	NM	NM
Interest credited to policyholder account balances	**3,595**	3,637	3,838	(1)	(5)
Amortization of deferred acquisition costs	**694**	491	952	41	(48)
Other acquisition and insurance expenses	**806**	928	780	(13)	19
Operating income	**2,191**	2,534	1,012	(14)	150
Net realized capital losses	**(357)**	(1,176)	(2,802)	70	58
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital losses	**(328)**	(40)	73	NM	NM
Goodwill impairment charges	**-**	-	(81)	NM	NM
Pre-tax income (loss)	**$ 1,506**	$ 1,318	$ (1,798)	14%	NM%
Total SunAmerica:					
Revenue:					
Premiums	**$ 2,513**	$ 2,520	$ 2,671	-%	(6)%
Policy fees	**2,705**	2,710	2,656	-	2
Net investment income	**9,882**	10,768	9,553	(8)	13
Other income	**209**	-	-	NM	NM
Operating expenses:					
Policyholder benefits and claims incurred	**4,614**	4,276	4,388	8	(3)
Interest credited to policyholder account balances	**4,446**	4,480	4,704	(1)	(5)

Amortization of deferred acquisition costs	**1,228**	1,275	1,668	(4)	(24)
Other acquisition and insurance expenses	**1,760**	1,919	1,812	(8)	6
Operating income	**3,261**	4,048	2,308	(19)	75
Net realized capital gains (losses)	**6**	(1,251)	(3,514)	NM	64
Benefit (amortization) of DAC, VOBA and SIA related to net realized capital gains (losses)	**(357)**	(85)	108	(320)	NM
Goodwill impairment charges	**-**	-	(81)	NM	NM
Pre-tax income (loss)	**$ 2,910**	$ 2,712	$ (1,179)	7%	NM%

2011 and 2010 Comparison

SunAmerica reported a decrease in operating income in 2011 compared to 2010, reflecting lower net investment income, higher DAC amortization and higher policyholder benefit expense in SunAmerica's variable annuity business due to equity market conditions, and an increase in incurred but not reported (IBNR) death claim reserves.

Net investment income reflected a slight decline in base yields (12 basis points), as investment purchases in late 2010 and 2011 were made at yields lower than the weighted average yields of the existing base portfolio. The lower yields were partially offset by an increase in income from the reinvestment of significant amounts of cash and short term investments during 2011. The following decreases in investment enhancement items also contributed to lower net investment income in 2011 compared to 2010:

- $471 million decrease in valuation gains on ML II;
- $196 million lower call and tender income;
- $163 million of losses from equity-method investments in two trusts created by AIG to hold leased commercial aircraft, in which SunAmerica has non-voting preferred equity and debt interests. The losses reflect aircraft impairments recorded by the trusts in 2011 based on reviews of aircraft recoverability, which consider projected undiscounted future cash flows subject to assumptions based on current macroeconomic and industry trends and conditions; and
- $121 million decrease in private equity funds and hedge funds income.

DAC amortization and policyholder benefit expenses related to weaker equity market conditions were $93 million in 2011, compared to an $87 million reduction to expenses due to more favorable equity market conditions in 2010. In a weak equity market, SunAmerica increases policyholder benefit reserves to recognize the expected value of death benefits in excess of the projected account balance for certain guaranteed benefits features of variable annuities. The DAC asset related to these products may also be adjusted through amortization expense, to reflect updates of future estimated gross profits due to equity market assumptions. The effect on the estimated gross profits of variable products of short-term fluctuations in the equity markets are mitigated in part through the use of a reversion to mean methodology. Under this methodology, SunAmerica assumes a long-term growth rate for the assets backing these liabilities, which factors in potential short-term fluctuations in the financial markets, and if the long-term growth rate assumption is deemed to be unreasonable in light of the current market conditions, the long-term growth rate assumption is revised upward or downward to reflect the revised estimate. See Note 2(g) to the Consolidated Financial Statements for additional discussion.

SunAmerica recorded an increase of approximately $202 million in the estimated reserves for incurred but not reported death claims in 2011 in conjunction with the use of the Social Security Death Master File (SSDMF) to identify potential claims not yet filed with its life insurance companies. Although SunAmerica has enhanced its claims practices to include use of the SSDMF, it is possible that industry-wide regulatory inquiries, audits and other regulatory activity could result in the payment of additional death claims, additional escheatment of funds deemed abandoned under state laws, administrative penalties and interest.

Offsetting these decreases in operating income was $226 million of legal settlement net proceeds received in 2011. In three separate agreements, SAFG Retirement Services, Inc. (SAFG), formerly known as AIG Retirement Services, Inc. agreed to resolve its claims in the matter titled AIG Retirement Services, Inc. v. Altus Finance S.A. et al.

Other acquisition and insurance expenses declined $159 million, or 8 percent, compared to 2010, primarily due to legal expense accruals and state guaranty fund assessments which were higher in 2010, as well as a reduction in the cost of letters of credit related to reinsurance.

Pre-tax income for SunAmerica reflected net realized capital gains in 2011 compared to net realized capital losses in 2010 due principally to a $981 million decline in other-than-temporary impairments, a decline in fair value losses on derivatives primarily used to hedge the effect of interest rate and foreign exchange movements on Guaranteed Investment Contracts (GIC) reserves, and declines in the allowance for mortgage loans. These

improvements were partially offset by a $465 million increase in fair value losses of embedded derivatives, net of economic hedges, relating to variable annuity products with living benefit guarantees, compared to 2010, driven by declines in long term interest rates. Due to statutory capital considerations, a significant portion of the interest rate exposure related to these variable annuity contract features is unhedged.

SunAmerica periodically evaluates the estimates used to establish its liabilities for future policy benefits and DAC. These estimates may be adjusted based on actual experience and management judgment regarding assumptions which include mortality, morbidity, persistency, maintenance expenses and investment returns. These current best estimates are used to determine whether to adjust DAC and record additional liabilities when unrealized gains or losses on available-for-sale investment securities are recognized through accumulated other comprehensive income, at each balance sheet date, as if the securities had been sold at their stated aggregate fair value and the proceeds reinvested at current yields. An actual sale of the underlying securities could trigger an actual loss recognition event that would result in the amortization of DAC and the recognition of higher reserves through policyholder benefit expense due to a deficiency in future earnings. Primarily as a result of the low interest rate environment in 2011, SunAmerica recorded additional future policy benefits and adjustments to DAC totaling $1.6 billion, net of tax, as of December 31, 2011, which were charged directly to accumulated other comprehensive income (loss) and included within the change in net unrealized appreciation (depreciation) of investments.

2010 and 2009 Comparison

SunAmerica reported an increase in operating income in 2010 compared to 2009 primarily due to higher net investment income and favorable changes in DAC and SIA amortization and policyholder benefit expenses due to improved equity market conditions in 2010 relative to 2009.

Higher net investment income in 2010 compared to 2009 reflected the following:

- $699 million increase in private equity funds and hedge funds income;
- $539 million increase in valuation gains on ML II; and
- $279 million higher call and tender income.

In 2009, DAC and SIA amortization unlocking and related reserve strengthening charges of $611 million were primarily due to reductions in the long-term growth assumptions and deteriorated equity market conditions early in 2009 for group retirement products and individual variable annuities, and projected increases in surrenders for individual fixed annuities. The 2010 unlocking and reserve strengthening was not significant.

The improvement in the pre-tax results for SunAmerica in 2010 compared to 2009 reflected a decline in net realized capital losses due principally to a significant decline in other-than-temporary impairments, and an increase in net realized gains from the sale of investments in 2010 partially offset by affordable housing partnership impairments and an increase in fair value losses on derivatives primarily used to hedge the effect of interest rate and foreign exchange movements on GIC reserves. See Results of Operations Consolidated Results Premiums; Net Investment Income; and Net Realized Capital Gains (Losses) herein.

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Sales and Deposits

The following tables summarize SunAmerica premiums, deposits and other considerations by product*:

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**	**Percentage Change** 2011 vs. 2010	2010 vs. 2009
Premiums, deposits and other considerations					
Individual fixed annuity deposits	**$ 6,606**	$ 4,410	$ 5,348	50%	(18)%
Group retirement product deposits	**7,312**	6,309	6,201	16	2
Life insurance	**4,713**	5,110	5,538	(8)	(8)
Individual variable annuity deposits	**3,212**	2,072	891	55	133
Retail mutual funds	**1,925**	1,101	782	75	41
Individual annuities runoff	**70**	84	47	(17)	79
Total premiums, deposits and other considerations	**$ 23,838**	$ 19,086	$ 18,807	25%	1%
Independent retail	**$ 144**	$ 123	$ 123	17%	-%
Independent institutional	**25**	32	19	(22)	68
Affiliated Career and Matrix Direct	**109**	98	86	11	14
Total life insurance sales	**$ 278**	$ 253	$ 228	10%	11%

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

Premiums

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

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

Years Ended December 31, *(in millions)*	**2011**	**2010**	**2009**
Premiums, deposits and other considerations	**$ 23,838**	$ 19,086	$ 18,807
Deposits	**(21,376)**	(16,462)	(15,993)
Other	**51**	(104)	(143)
Premiums	**$ 2,513**	$ 2,520	$ 2,671

2011 and 2010 Comparison

Total premiums, deposits and other considerations increased in 2011 as deposits from individual fixed annuities, individual variable annuities and retail mutual funds all showed significant increases.

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

SunAmerica grew new sales of mortality based life insurance products during 2011 by strengthening the core retail independent distribution channel and continuing to focus on career agent and direct-to-consumer distribution. Retail life sales increased 17 percent during 2011 as SunAmerica continues to re-engage independent distribution channels. Affiliated distribution channels grew 11 percent in 2011 as a result of an enhanced product suite that appeals to middle market consumers. Matrix Direct, SunAmerica's direct-to-consumer platform, has proven highly effective for the distribution of term life and A&H products. The decline in institutional sales during 2011 reflects several large variable universal life sales during 2010.

2010 and 2009 Comparison

Total premiums, deposits and other considerations increased in 2010 compared to 2009 as improved sales from life insurance, group retirement products and individual variable annuities offset a decline in individual fixed annuity deposits. Group Retirement deposits increased for 2010 primarily due to improved sales from individual rollovers. Individual fixed annuity deposits decreased primarily due to the low interest rate environment in 2010. Variable annuity sales increased due to competitive product enhancements, reinstatements at a number of key broker-dealers, and increased wholesaler productivity. Payout annuity sales increased in 2010 compared to 2009 as a result of improved structured settlement and immediate annuity sales. Life insurance sales decreased in 2010 compared to 2009 driven by term and universal life products sold through independent and career distribution networks.

Domestic Retirement Services Net Flows

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

Years Ended December 31, ***(in millions)***	**2011**	**2010**	**2009**
Group retirement products			
Balance, beginning of year	**$ 68,365**	$ 63,419	$ 56,861
Deposits annuities	**5,652**	4,937	4,856
Deposits mutual funds	**1,660**	1,372	1,345
Total deposits	**7,312**	6,309	6,201
Surrenders and other withdrawals	**(5,853)**	(6,647)	(7,233)
Death benefits	**(371)**	(317)	(275)
Net inflows (outflows)	**1,088**	(655)	(1,307)
Change in fair value of underlying investments, interest credited, net of fees	**457**	5,601	7,865
Future policy benefits related to unrealized investment appreciation	**15**	-	-
Balance, end of year	**$ 69,925**	$ 68,365	$ 63,419
Individual fixed annuities			
Balance, beginning of year	**$ 48,489**	$ 47,202	$ 48,394
Deposits	**6,606**	4,410	5,348
Surrenders and other withdrawals	**(3,456)**	(3,520)	(6,715)
Death benefits	**(1,570)**	(1,479)	(1,700)
Net inflows (outflows)	**1,580**	(589)	(3,067)
Change in fair value of underlying investments, interest credited, net of fees	**1,828**	1,876	1,875
Future policy benefits related to unrealized investment appreciation	**379**	-	-
Balance, end of year	**$ 52,276**	$ 48,489	$ 47,202

Years Ended December 31, (in millions)	2011	2010	2009
Individual variable annuities			
Balance, beginning of year	**$ 25,581**	$ 24,637	$ 23,593
Deposits	**3,212**	2,072	891
Surrenders and other withdrawals	**(2,982)**	(2,725)	(2,667)
Death benefits	**(452)**	(437)	(404)
Net outflows	**(222)**	(1,090)	(2,180)
Change in fair value of underlying investments, interest credited, net of fees	**(463)**	2,034	3,224
Balance, end of year	**$ 24,896**	$ 25,581	$ 24,637
Retail mutual funds			
Balance, beginning of year	**$ 5,975**	$ 5,879	$ 5,767
Deposits	**1,925**	1,101	782
Redemptions	**(1,447)**	(1,252)	(1,174)
Net inflows (outflows)	**478**	(151)	(392)
Change in fair value of underlying investments, interest credited, net of fees	**(232)**	247	504
Balance, end of year	**6,221**	5,975	5,879
Total Domestic Retirement Services			
Balance, beginning of year	**$ 148,410**	$ 141,137	$ 134,615
Deposits	**19,055**	13,892	13,222
Surrenders, redemptions and other withdrawals	**(13,738)**	(14,144)	(17,789)
Death benefits	**(2,393)**	(2,233)	(2,379)
Net inflows (outflows) excluding retail mutual funds	**2,924**	(2,485)	(6,946)
Change in fair value of underlying investments, interest credited, net of fees	**1,590**	9,758	13,468
Future policy benefits related to unrealized investment appreciation	**394**	-	-
Balance, end of year, excluding runoff	**153,318**	148,410	141,137
Individual annuities runoff	**4,299**	4,430	4,637
GIC runoff	**6,706**	8,486	8,536
Balance, end of year	**$ 164,323**	$ 161,326	$ 154,310
General and separate account reserves and mutual funds			
General account reserve	**$ 102,580**	$ 97,515	$ 94,912
Separate account reserve	**46,006**	48,804	45,444
Total general and separate account reserves	**148,586**	146,319	140,356
Group retirement mutual funds	**9,516**	9,032	8,075
Retail mutual funds	**6,221**	5,975	5,879
Total reserves and mutual funds	**$ 164,323**	$ 161,326	$ 154,310

2011 and 2010 Comparison

Net flows improved in 2011 due to both the significant increase in deposits and favorable surrender experience in group retirement and individual fixed annuities. However, individual fixed annuities net flows declined in the second half of the year due to lower deposits resulting from the low interest rate environment. Should the current low interest rate environment persist, net flows are likely to decline in 2012 from 2011 levels. Surrender rates for individual fixed annuities also decreased in 2011 due to the low interest rate environment and the relative competitiveness of interest credited rates on the existing block of fixed annuities versus interest rates on alternative investment options available in the marketplace. SunAmerica has returned to a more normal level of group surrender activity that no longer reflects the negative AIG publicity associated with the events of 2008 and 2009. Individual variable annuities net flows improved from 2010 levels due primarily to higher deposits throughout 2011 and turned positive in the fourth quarter of 2011.

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2010 and 2009 Comparison

Surrender rates continued to improve in 2010 compared to 2009 for group retirement products, individual fixed annuities and individual variable annuities as surrenders have returned to more normal levels. Surrender rates for individual fixed annuities have decreased significantly in 2010 due to the low interest rate environment and the relative competitiveness of interest credited rates on the existing block of fixed annuities versus interest rates on alternative investment options available in the marketplace.

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

	2011			2010		
At December 31, *(in millions)*	**Group Retirement Products***	**Individual Fixed Annuities**	**Individual Variable Annuities**	**Group Retirement Products***	**Individual Fixed Annuities**	**Individual Variable Annuities**
No surrender charge	**$ 53,100**	**$ 18,179**	**$ 10,061**	$ 52,742	$ 14,006	$ 11,859
0% - 2%	**1,186**	**2,922**	**4,317**	1,292	3,510	4,083
Greater than 2% - 4%	**1,248**	**4,719**	**2,068**	1,754	5,060	2,040
Greater than 4%	**4,060**	**23,372**	**7,764**	2,753	22,777	7,361
Non-Surrenderable	**815**	**3,084**	**686**	792	3,136	238
Total reserves	**$ 60,409**	**$ 52,276**	**$ 24,896**	$ 59,333	$ 48,489	$ 25,581
Surrender rates	**8.4%**	**6.8%**	**11.9%**	10.3%	7.4%	11.4%

* *Excludes mutual funds of $9.5 billion and $9.0 billion in 2011 and 2010, respectively.*

Aircraft Leasing Operations

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. Aircraft Leasing operations also include gains and losses that 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.

As discussed in Note 3 to the Consolidated Financial Statements, in order to align financial reporting with changes made during 2011 to the manner in which AIG's chief operating decision makers review the businesses to assess performance and make decisions about resources to be allocated, beginning in the third quarter of 2011, Aircraft Leasing is being presented as a standalone reportable segment. It was previously reported as a component of the Financial Services reportable segment. Prior periods have been revised to conform to the current period presentation for the segment changes.

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Aircraft Leasing Results

Aircraft Leasing results were as follows:

Years Ended December 31,				**Percentage Change**	
(in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Aircraft leasing revenues:					
Rental revenue	**$ 4,447**	$ 4,727	$ 4,932	(6)%	(4)%
Interest and other revenues	**20**	22	35	(9)	(37)
Total aircraft leasing revenues	**4,467**	4,749	4,967	(6)	(4)
Interest expense	**1,427**	1,397	1,222	2	14
Loss on extinguishment of debt	**61**	-	-	NM	NM
Aircraft leasing expense:					
Depreciation expense	**1,871**	1,968	1,973	(5)	-
Impairments charges, fair value adjustments and lease-related charges	**1,689**	1,704	51	(1)	NM
Other expenses	**414**	378	361	10	5
Total aircraft leasing expense	**3,974**	4,050	2,385	(2)	70
Operating income (loss)	**(995)**	(698)	1,360	(43)	NM
Net realized capital gains (losses)	**(10)**	(31)	25	68	NM
Pre-tax income (loss)	**$ (1,005)**	$ (729)	$ 1,385	(38)%	NM%

2011 and 2010 Comparison

The Aircraft Leasing pre-tax loss increased in 2011 compared to 2010 primarily due to lower rental revenues as a result of a reduction in ILFC's average fleet size resulting from sales of aircraft and lower lease revenue earned on re-leased aircraft in its fleet, partially offset by lower depreciation charges. In 2011, ILFC had an average of 932 aircraft in its fleet, compared to 963 in 2010.

Additionally, ILFC recorded impairment charges, fair value adjustments and lease-related charges of $1.7 billion in each of 2011 and 2010. The impairment charges in 2011 resulted from unfavorable trends affecting the residual values of certain aircraft types. In monitoring the aircraft in ILFC's fleet for impairment charges on an on-going basis, ILFC considers facts and circumstances such as projected lease rates and terms, residual values, overhaul rental realization and aircraft holding periods. These items are considered in determining whether ILFC would need to modify its assumptions used in its recoverability assessments. In addition to these factors, ILFC considered its newly acquired end-of-life management capabilities from its acquisition of AeroTurbine and its impact on ILFC's strategy, as well as potential sales. While ILFC's overall business model has not changed, its expectation of how it may manage out-of-production aircraft, or aircraft that have been affected by new technology developments, changed due to the AeroTurbine acquisition. The result of the overall assessment based on ILFC's updated assumptions and management's change in its end-of-life strategy for older generation aircraft indicated that the book value of certain aircraft were not fully recoverable and these aircraft were deemed impaired. The aircraft impaired were primarily out-of-production aircraft, or aircraft that have been impacted by new technology developments.

2010 and 2009 Comparison

ILFC reported a pre-tax loss in 2010 compared to pre-tax income in 2009 primarily due to impairment charges, fair value adjustments and lease related charges recorded on aircraft in its fleet. During 2010, ILFC recorded asset impairment losses of $1.1 billion on certain aircraft in its fleet reflecting management's outlook related to new technology developments and the future recovery of the airline industry due to a decrease in demand for certain aircraft types, increased volatility in fuel costs and changes in other macroeconomic conditions which, when aggregated, resulted in lower future estimated lease rates used in ILFC's annual recurring recoverability assessment. Additionally, ILFC recorded asset impairment charges, fair value adjustments and lease-related charges aggregating $597 million on aircraft sold. ILFC also incurred increased interest expense driven by higher composite borrowing rates, and an increase in the provision for overhauls to reflect an increase in future reimbursements.

Other Operations

The components of AIG's Other operations were revised in the third quarter of 2011, primarily as a result of the reclassification of non-aircraft leasing operations from the Financial Services reportable segment as discussed in Note 3 to the Consolidated Financial Statements, as follows:

AIGFP's derivatives portfolio, previously reported as a component of the Financial Services reportable segment is now reported with AIG Markets, Inc. (AIG Markets) as Global Capital Markets in Other Operations.

AIG Global Real Estate Investment Corp. operations and Institutional Asset Management, previously reported as components of Direct Investment book and Asset Management operations within Other operations, respectively, are now reported in Corporate & Other.

AIG's Other operations include the following:

Mortgage Guaranty UGC subsidiaries issue residential mortgage guaranty insurance, both domestically and to a lesser extent internationally, that covers mortgage lenders from 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.

Global Capital Markets consist of the operations of AIG Markets and the remaining AIGFP derivatives portfolio. AIG Markets acts as the derivatives intermediary between AIG companies and third parties. The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011. Although the remaining AIGFP derivatives portfolio may experience periodic fair value volatility, the portfolio consists predominantly of transactions AIG believes are of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis. AIGFP is entering into new derivative transactions only to hedge its current portfolio.

Direct Investment book includes results for the MIP and the results of certain non-derivative assets and liabilities of AIGFP.

Retained Interests Fair value gains or losses on AIG's remaining interest in AIA ordinary shares retained following the AIA initial public offering, the retained interest in ML III, and, prior to their sale on March 8, 2011, the MetLife securities that were received as consideration from the sale of ALICO.

Corporate & Other consists primarily of interest expense, intercompany interest income that is eliminated in consolidation, expenses of corporate staff not attributable to specific business segments (including restructuring costs), expenses related to internal controls, corporate initiatives, certain compensation plan expenses, corporate-level net realized capital gains and losses, certain litigation-related charges and credits, and net gains and losses on sales of divested businesses that did not qualify for discontinued operations accounting treatment.

Divested Businesses include operating results of certain businesses that have been divested that did not meet the criteria for discontinued operations classification, primarily consisting of AIA in 2010.

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Other Operations Results

The following table presents pre-tax income for AIG's Other operations:

(in millions)	2011	2010	2009	Percentage Change 2011 vs. 2010	Percentage Change 2010 vs. 2009
Mortgage Guaranty	**$ (73)**	$ 373	$ (1,688)	NM%	NM%
Global Capital Markets	**(7)**	193	603	NM	(68)
Direct Investment book	**622**	1,242	1,506	(50)	(18)
Retained interests:					
Change in the fair value of the MetLife securities prior to their sale	**(157)**	665	-	NM	NM
Change in fair value of AIA securities	**1,289**	(638)	-	NM	NM
Change in fair value of ML III[(a)]	**(646)**	1,792	419	NM	328
Corporate & Other:					
Interest expense on FRBNY Credit Facility[(b)]	**(72)**	(4,107)	(10,381)	98	60
Other interest expense	**(2,001)**	(2,380)	(2,676)	16	11
Other corporate expenses	**(703)**	(1,370)	(3,253)	49	58
Loss on extinguishment of debt	**(2,847)**	(104)	-	NM	NM
Net realized capital gains (losses)	**(30)**	500	750	NM	(33)
Net gain (loss) on sale of divested businesses	**(74)**	17,098	(1,271)	NM	NM
Total Corporate & Other	**(5,727)**	9,637	(16,831)	NM	NM
Divested businesses	**-**	2,540	2,159	NM	18
Consolidation and eliminations	**-**	89	(361)	NM	NM
Total Other operations	**$ (4,699)**	$ 15,893	$ (14,193)	NM%	NM%

(a) *Corporate & Other contributed its equity interest in ML III to an AIG subsidiary reported above, during the second quarter of 2009.*

(b) *Includes interest expense of $2 million, $75 million and $89 million for 2011, 2010 and 2009, respectively, allocated to discontinued operations in consolidation.*

Mortgage Guaranty

The main business of the subsidiaries of UGC is the issuance of residential mortgage guaranty insurance, both domestically, and to a lesser extent, internationally, that covers mortgage lenders from 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.

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

Years Ended December 31, *(in millions)*	2011	2010	2009	Percentage Change 2011 vs. 2010	Percentage Change 2010 vs. 2009
Underwriting results:					

Net premiums written	**$ 801**	$ 756	$ 911	6%	(17)%
(Increase) decrease in unearned premiums	**(9)**	219	119	NM	84
Net premiums earned	**792**	975	1,030	(19)	(5)
Claims and claims adjustment expenses incurred	**834**	500	2,869	67	(83)
Underwriting expenses	**183**	295	2	(38)	NM
Underwriting profit (loss)	**(225)**	180	(1,841)	NM	NM
Investing and other results:					
Net investment income	**132**	149	168	(11)	(11)
Net realized capital gains (losses)	**20**	44	(15)	(55)	NM
Pre-tax income (loss)	**$ (73)**	$ 373	$ (1,688)	NM%	NM%

2011 and 2010 Comparison

UGC recorded a pre-tax loss in 2011 compared to pre-tax income in 2010, primarily due to:

- an increase in claims and claims adjustment expenses of $334 million, primarily in first-lien business, reflecting increased overturns of denied and rescinded claims and unfavorable first-lien loss development of $76 million in 2011, compared to favorable loss development of $385 million in 2010, partially offset by lower levels of newly reported delinquencies in the first-lien, second-lien and international products, and a reduction in reserves due to an agreement to resolve certain delinquencies with a major European lender that resulted in a $43 million benefit;
- declines in earned premiums from the second-lien, private student loan and international businesses, which were placed into runoff during 2008, partially offset by an increase in earned premiums from first-lien business; and
- the accrual of $22 million to pay for previously rescinded losses, certain legal fees and interest in connection with an adverse judgment. UGC has appealed the court's decision.

Partially offsetting these declines was a reduction in underwriting expenses compared to 2010 reflecting a $94 million accrual of estimated remedy losses in 2010. Remedy losses represent the indemnification for losses incurred by lenders arising from obligations contractually assumed by UGC as a result of underwriting services provided to lenders during times of high loan origination activity. UGC believes it has adequately accrued for these losses at December 31, 2011. Pre-tax income for 2010 also includes gains of approximately $150 million from legal settlements and reinsurance commutations.

2010 and 2009 Comparison

Mortgage Guaranty reported pre-tax income in 2010 compared to a pre-tax loss in 2009, driven by:

- favorable prior year reserve development, primarily in first liens, due to increased cures, rescissions and claims denials, compared to unfavorable development in 2009;
- gains of $150 million in 2010 from legal settlements and reinsurance commutations; and
- lower levels of newly reported delinquencies in the first-lien, second-lien and international products, partially offset by increased delinquencies in private student loans. During 2010, UGC commuted the majority of its private student loan portfolio.

Partially offsetting the improved 2010 results were:

- lower earned premiums in first-lien, second-lien, and international businesses in 2010;
- the accrual of $94 million of remedy losses in 2010 as noted above; and
- the amortization of the second-lien premium deficiency reserve of $222 million in 2009.

Risk-in-Force

The following table presents risk in force and delinquency ratio information for Mortgage Guaranty domestic business:

At December 31, ***(dollars in billions)***	**2011**	2010
Domestic first-lien:		
Risk in force	**$ 25.6**	$ 25.3
60+ day delinquency ratio on primary loans[(a)]	**13.9%**	16.3%
Domestic second-lien:		
Risk in force[(b)]	**$ 1.5**	$ 2.1

(a) *Based on number of policies.*

(b) *Represents the full amount of second-lien loans insured reduced for contractual aggregate loss limits on certain pools of loans, usually 10 percent of the full amount of loans insured in each pool. Certain second-lien pools have reinstatement provisions, which will expire as the loan balances are repaid.*

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Global Capital Markets Operations

2011 and 2010 Comparison

Global Capital Markets reported a pre-tax loss in 2011 compared to pre-tax income in 2010 primarily due to a decrease in unrealized market valuation gains related to the AIGFP super senior credit default swap (CDS) portfolio and losses in 2011 compared to gains in 2010 on the AIGFP CDS contracts referencing single-name exposures written on corporate, index and asset-backed credits, which are not included in the AIGFP super senior CDS portfolio. These items were partially offset by improvements related to the net effect of changes in credit spreads on the credit valuation adjustments of AIGFP's derivative assets and liabilities. During 2011, AIGFP recorded an unrealized market valuation gain on its super senior CDS portfolio of $339 million compared to an unrealized market valuation gain of $598 million in 2010. The reduction in gains resulted primarily from CDS transactions written on multi-sector CDOs driven by price declines of the underlying assets. AIGFP also recognized a loss of $23 million in 2011 on CDS contracts referencing single-name exposures as compared to a gain of $149 million in 2010 due to a decline in market conditions. During 2011, AIGFP recognized a net credit valuation adjustment loss on derivative assets and liabilities of $53 million compared to a net credit valuation adjustment loss of $200 million in 2010 due to a narrowing of corporate spreads.

2010 and 2009 Comparison

Global Capital Markets reported lower pre-tax income in 2010 compared to 2009 primarily due to lower unrealized market valuation gains related to the AIGFP super senior CDS portfolio and the significant decrease related to the net effect of changes in credit spreads on the credit valuation adjustments of AIGFP's derivative assets and liabilities, partially offset by lower costs related to the continued wind-down of AIGFP's businesses and portfolios. During 2010, AIGFP recorded an unrealized market valuation gain on its super senior CDS portfolio of $598 million compared to an unrealized market valuation gain of $1.4 billion in 2009. During 2010, AIGFP recognized a net credit valuation adjustment loss on derivative assets and liabilities of $200 million compared to a net credit valuation adjustment gain of $775 million in 2009.

See Critical Accounting Estimates Level 3 Assets and Liabilities herein for a discussion of AIGFP's super senior CDS portfolio.

Direct Investment Book Results

2011 and 2010 Comparison

The Direct Investment book pre-tax income decreased in 2011 compared to 2010 due to lower net gains on credit valuation adjustments on non-derivative assets and liabilities accounted for under the fair value option and lower interest income in the MIP due to approximately $4.9 billion in sales of investments during the fourth quarter of 2010 and the first quarter of 2011 to increase liquidity. These declines were partially offset by significantly lower other-than-temporary impairments on fixed maturity securities.

2010 and 2009 Comparison

The Direct Investment book pre-tax income decreased in 2010 compared to 2009 due to lower net gains on credit valuation adjustments on non-derivative assets and liabilities accounted for under the fair value option, partially offset by significantly lower other-than-temporary impairments on fixed maturity securities.

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The following table presents credit valuation adjustment gains (losses) for the Direct Investment book (excluding intercompany transactions):

(in millions)		Counterparty Credit Valuation Adjustment on Assets			AIG's Own Credit Valuation Adjustment on Liabilities
Year Ended December 31, 2011					
Bond trading securities	**$**	**(71)**	Notes and bonds payable	**$**	**141**
Loans and other assets		**31**	Hybrid financial instrument liabilities		**147**
			Guaranteed Investment Agreements (GIAs)		**112**
			Other liabilities		**20**
Decrease in assets	**$**	**(40)**	Decrease in liabilities	**$**	**420**
Net pre-tax increase to Other income	**$**	**380**			
Year Ended December 31, 2010					
Bond trading securities	$	1,678	Notes and bonds payable	$	(251)
Loans and other assets		40	Hybrid financial instrument liabilities		(311)
			GIAs		(173)
			Other liabilities		(44)
Increase in assets	$	1,718	Increase in liabilities	$	(779)
Net pre-tax increase to Other income	$	939			
Year Ended December 31, 2009					
Bond trading securities		2,095	Notes and bonds payable		(163)
Loans and other assets		(48)	Hybrid financial instrument liabilities		(83)
			GIAs		172
			Other liabilities		(12)
Increase in assets	$	2,047	Increase in liabilities	$	(86)
Net pre-tax increase to Other income	$	1,961			

Change in Fair Value of the MetLife Securities Prior to Sale

AIG recognized a loss in 2011, representing the decline in the securities' value, due to market conditions, from December 31, 2010 through the date of their sale in the first quarter of 2011.

Change in Fair Value of AIA Securities

AIG recognized a $1.3 billion gain in 2011, a 12 percent increase in the value of AIG's 33 percent interest in AIA, which is recorded in Other invested assets and accounted for under the fair value method. In 2010, AIG recognized a $638 million loss on its interest in AIA during the approximate two month holding period following the initial public offering in late October 2010.

Change in Fair Value of ML III

The loss attributable to AIG's interest in ML III for 2011 was due to significant spread widening and reduced interest rates.

The gain of $1.8 billion on ML III for 2010 was attributable to the shortening of weighted average life by 1.34 years. Additionally, fair value for 2010 was positively affected by a decrease in projected credit losses in the underlying collateral securities. During 2010, credit spreads tightened by 287 basis points.

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Corporate & Other

Corporate & Other reported pre-tax losses of $5.7 billion in 2011 compared to pre-tax gains of $9.6 billion in 2010 primarily due to gains on sales of divested businesses in 2010, primarily related to AIA, partially offset by:

- a decline in interest expense as a result of the repayment of the FRBNY Credit Facility;
- a reduction in other corporate expenses due to the securities litigation charges recorded in 2010; and
- a pre-tax gain on extinguishment of debt of approximately $484 million resulting from the exchange of outstanding junior subordinated debentures for senior notes pursuant to an exchange offer.

These improvements were mostly offset by a loss on extinguishment of debt of $3.3 billion in connection with the Recapitalization, primarily consisting of the accelerated amortization of the prepaid commitment fee asset resulting from the termination of the FRBNY Credit Facility and net realized capital losses recorded in 2011 compared to net realized capital gains in 2010.

Corporate & Other reported pre-tax income in 2010 compared to a pre-tax loss in 2009 primarily due to the following:

- a decline in interest expense on the FRBNY Credit Facility; and
- gains on sales of divested businesses in 2010, primarily related to AIA, compared to losses in 2009.

Divested Businesses

Divested businesses include the operating results of divested businesses that did not qualify for discontinued operations accounting through the date of their sale. The Divested businesses results for 2010 primarily represent the historical results of AIA, which was deconsolidated in November 2010 in conjunction with its initial public offering.

CONSOLIDATED OTHER COMPREHENSIVE INCOME

The following table presents AIG's consolidated other comprehensive income (loss):

Years Ended December 31,				**Increase (Decrease)**	
(in millions)	**2011**	**2010**	**2009**	**2011 vs. 2010**	**2010 vs. 2009**
Change in unrealized appreciation of investments	**$ 5,518**	$ 9,910	$ 33,221	$ (4,392)	$ (23,311)
Change in deferred acquisition costs adjustment and other	**(819)**	(946)	(3,890)	127	2,944
Change in future policy benefits	**(2,302)**	-	-	(2,302)	-
Change in foreign currency translation adjustments	**8**	703	2,933	(695)	(2,230)
Change in net derivative gains (losses) arising from cash flow hedging activities	**51**	105	95	(54)	10
Change in retirement plan liabilities adjustment	**(365)**	9	168	(374)	(159)
Change attributable to divestitures and deconsolidations	**(5,098)**	(5,082)	809	(16)	(5,891)

Deferred tax asset (liability)		**177**		(2,242)		(11,579)		2,419	9,337
Total other comprehensive income (loss)	**$**	**(2,830)**	$	2,457	$	21,757	$	(5,287)	$ (19,300)

Change in Unrealized Appreciation of Investments

The $5.5 billion increase in 2011 was primarily attributable to continued appreciation in bonds available for sale of $0.7 billion and $4.6 billion recognized by Chartis and SunAmerica, respectively, due to continued improvements in financial market conditions and declines in U.S. Treasury rates, which were partially offset by widening spreads.

The $9.9 billion increase in 2010 primarily reflects the $0.6 billion and $7.0 billion appreciation in bonds available for sale held by Chartis and SunAmerica operations, respectively, due to lower U.S. Treasury rates and slightly narrowed spreads. The structured securities portfolio accounted for more than half of the positive change in 2010, as RMBS and CMBS continued to recover from the distressed pricing levels of the financial crisis. The increase in 2010 also includes $578 million of appreciation in available-for-sale equities held by Chartis.

The $33.2 billion in unrealized appreciation for 2009 reflects $30.2 billion and $2.9 billion in appreciation in bonds and equities available for sale, respectively, related to the continued recovery of the global financial markets in 2009, as investors returned to equity and bond markets.

Change in Deferred Acquisition Costs Adjustment and Other

The decline in deferred acquisition costs in all periods is primarily the result of increases in the unrealized appreciation of investments supporting interest-sensitive products. The decline since 2009 reflects the divestiture of multiple life insurance operations, including the sales of Nan Shan, AIG Star and AIG Edison in 2011, the deconsolidation of AIA in 2010 and sale of ALICO in 2010.

Change in Future Policy Benefits

AIG periodically evaluates the assumptions used to establish its deferred acquisition costs and future policy benefits. These assumptions may be adjusted based on actual experience and management judgment. Key assumptions include mortality, morbidity, persistency, maintenance expenses and investment returns.

Primarily as a result of the significant decline in interest rates during the latter half of 2011 and updated assumptions for mortality experience, AIG recorded additional future policy benefits through other comprehensive income. This change in future policy benefits assumes the securities underlying certain traditional long-duration products had been sold at their stated aggregate fair value and reinvested at current yields.

Change in Foreign Currency Translation Adjustments

Increases in foreign currency translation adjustments for all periods primarily reflect the weakening of the U.S. dollar in relation to foreign currencies. The decline in foreign currency translation adjustments over the three-year period reflects the divestiture of multiple foreign operations, including the sales of Nan Shan, AIG Star and AIG Edison in 2011, the deconsolidation of AIA in 2010 and the sale of ALICO in 2010.

Change in Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities

The decline in 2011 compared to 2010 primarily reflects the gradual wind-down of the cash flow hedge portfolio in 2011, 2010 and 2009, partially offset by a decline in the interest rate environment.

Retirement Plan Liabilities Adjustment

The decrease in 2011 was primarily due to the announced redesign and resulting remeasurement of the AIG Retirement and AIG Excess Plans, which will be converted to cash balance plans effective April 1, 2012. AIG recognized a $590 million pre-tax reduction to Accumulated other comprehensive income in connection with the remeasurement at September 30, 2011, primarily due to a decrease in the discount rate since December 31, 2010. This decrease in Accumulated other comprehensive income was partially offset by the effect of the increase in the discount rate in the fourth quarter in connection with the year end remeasurement.

In 2010 and 2009, the effect of declining discount rates on pension benefit obligations was offset by the appreciation of investments held by the respective plans.

See Note 20 to the Consolidated Financial Statements for further discussion.

Divestitures and Deconsolidations

The change attributable to divestitures and deconsolidations in every period reflects the derecognition of all items in Accumulated other comprehensive income (loss) at the point of sale/deconsolidation for all entities, including domestic entities. In 2011, the most significant entities were AIG Star, AIG Edison and Nan Shan. In 2010, the most significant entities were AIA and ALICO. In 2009, the most significant entities were Transatlantic, 21st Century and HSB.

Deferred Taxes on Other Comprehensive Income

For the year ended December 31, 2011, the effective tax rate on pre-tax Other Comprehensive Loss was 5.9 percent. The effective tax rate differs from the statutory 35 percent rate primarily due to the effects of the Nan Shan disposition.

For the year ended December 31, 2010, the effective tax rate on pre-tax Other Comprehensive Income was 47.7 percent, primarily due to the effects of the AIA initial public offering, the ALICO disposition and changes in the estimated U.S. tax liability with respect to the potential sale of subsidiaries, including AIG Star and AIG Edison.

For the year ended December 31, 2009, the effective tax rate on pre-tax Other Comprehensive Income was 34.7 percent, which did not materially differ from the statutory 35 percent rate.

CAPITAL RESOURCES AND LIQUIDITY

OVERVIEW

AIG Parent's primary sources of liquidity are short-term investments and borrowing availability under syndicated credit and contingent liquidity facilities. Subject to market conditions, AIG expects to access the debt markets from time to time to meet its financing needs, which include the payment of maturing debt of AIG and its subsidiaries.

Highlights of 2011 actions affecting capital resources and liquidity include:

- the Recapitalization in January 2011 (more fully described in Note 1 to the Consolidated Financial Statements);
- approximately $3.0 billion paid to AIG Parent from Chartis and SunAmerica funded by payments of dividends from their subsidiaries;
- $2.9 billion issuance of AIG Common Stock;
- $2.0 billion senior unsecured note issuance;
- additional $500 million contingent liquidity facility arranged;
- $1.0 billion share repurchase authorization in November 2011, with repurchases of approximately $70 million at year-end;
- exchange of $2.4 billion of outstanding junior subordinated debentures for $1.8 billion of new senior unsecured notes;
- membership of certain SunAmerica insurance companies in the Federal Home Loan Banks (FHLBs), which provides these companies access to collateralized borrowing opportunities to enhance their liquidity;

repayment of total debt of $18.5 billion, excluding the Recapitalization in January 2011; and

$3.8 billion net capital contributions to Chartis, partially funded from the retention of $2 billion in net cash proceeds from the sale of AIG Star and AIG Edison and available cash at AIG Parent (more fully described in Uses of Liquidity below).

Liquidity Adequacy Management

AIG maintains a stress testing and liquidity framework to systematically assess AIG's aggregate exposure to its most significant risks. This framework is built on AIG's existing Enterprise Risk Management (ERM) stress testing methodology for both insurance and non-insurance operations. The scenarios are performed with a two-year time horizon and capital adequacy requirements consider both financial and insurance risks.

AIG's insurance operations must comply with numerous constraints on their minimum capital positions. These constraints are guiding requirements for capital adequacy for individual businesses, based on capital assessments under rating agency, regulatory and business requirements. Using ERM's stress testing methodology, the capital impact of potential stresses is evaluated relative to the binding capital constraint of each business operation in order to determine the liquidity required of AIG Parent to support the insurance operations and maintain their target capitalization levels. Added to this amount is the contingent liquidity required under stressed scenarios for non-insurance operations, including the Global Capital Markets derivatives portfolio, the Direct Investment book and ILFC.

AIG's consolidated risk target is to maintain a minimum liquidity buffer such that AIG Parent's liquidity requirements under the ERM stress scenarios do not exceed 80 percent of AIG Parent's overall liquidity sources over the specified two-year horizon. If the 80 percent minimum threshold is projected to be breached over this defined time horizon, AIG will take appropriate actions to further increase liquidity sources or reduce liquidity requirements to maintain the target threshold, although no assurance can be given that this can be achieved under then-prevailing market conditions.

As a result of these ERM stress tests and other considerations discussed in Note 1 to the Consolidated Financial Statements, AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including requirements arising out of reasonably foreseeable contingencies or events.

AIG has in place unconditional capital maintenance agreements (CMAs) with certain domestic Chartis and SunAmerica insurance companies. These CMAs are expected to continue to enhance AIG's capital management practices, and will help manage the flow of capital and funds between AIG Parent and its insurance company subsidiaries. AIG expects to enter into additional CMAs with certain other Chartis insurance companies as needed in 2012. For additional details regarding CMAs, see Liquidity of Parent and Subsidiaries Chartis, and Liquidity of Parent and Subsidiaries SunAmerica below.

Analysis of Sources and Uses of Cash

The following table presents selected data from AIG's Consolidated Statement of Cash Flows:

Years Ended December 31, ***(in millions)***	**2011**	2010	2009
Summary:			
Net cash provided by operating activities	**$ 35**	$ 16,910	$ 18,584
Net cash provided by (used in) investing activities	**36,332**	(10,225)	5,778
Net cash used in financing activities	**(36,926)**	(9,261)	(28,997)
Effect of exchange rate changes on cash	**29**	39	533
Decrease in cash	**(530)**	(2,537)	(4,102)
Cash at beginning of year	**1,558**	4,400	8,642
Change in cash of businesses held for sale	**446**	(305)	(140)
Cash at end of year	**$ 1,474**	$ 1,558	$ 4,400

Operating Cash Flow Activities

The decline in Net cash provided by operating activities in 2011 compared to 2010 was principally due to the following:

the payment in cash of the FRBNY Credit Facility accrued compounded interest and fees by AIG Parent totaling $6.4 billion, which were previously paid in-kind, and accordingly did not reduce operating cash flows in prior periods;

- a $10.4 billion reduction in cash provided by operating activities attributable to foreign life subsidiaries that were sold (i.e., AIA, ALICO, AIG Star, AIG Edison and Nan Shan), which subsidiaries generated operational cash inflows of $3.4 billion, $13.8 billion and $7.4 billion in 2011, 2010 and 2009, respectively; and

- the effect of catastrophes and the cession of the bulk of Chartis net asbestos liabilities in the United States to NICO. Excluding the impact of the NICO cession and catastrophes, cash provided by AIG's reportable segments in 2011 is consistent with 2010, as increases in claims paid were offset by increases in premiums collected at the insurance subsidiaries.

Insurance companies generally receive most premiums in advance of the payment of claims or policy benefits, but the ability of Chartis to generate positive cash flow is affected by the frequency and severity of losses under its insurance policies, policy retention rates and operating expenses.

Cash provided by Chartis operations was $1.9 billion for 2010 compared to $2.8 billion in 2009 as a reduction in claims paid was more than offset by declines in premiums collected, arising primarily from a decrease in U.S. and Canada region production. Catastrophic events and significant casualty losses, the timing and effect of which are inherently unpredictable, reduce operating cash flow for Chartis operations. Cash provided by AIG's life insurance subsidiaries, including entities presented as discontinued operations, was $15.5 billion for 2010 compared to $9.1 billion in 2009 as growth in international markets was partially offset by a decrease in cash flows from U.S. and Canada region operations.

Investing Cash Flow Activities

Net cash provided by investing activities in 2011 was primarily attributable to:

- the utilization of $26.4 billion of restricted cash generated from the AIA IPO and ALICO sale in connection with the Recapitalization and $9.6 billion disposition of MetLife securities, described in Note 1 to the Consolidated Financial Statements;

- the sale of AIG Star, AIG Edison and Nan Shan in 2011 for total proceeds of $6.4 billion; and

- net sales of short term investments and maturities of available for sale investments, primarily at Chartis and SunAmerica, which were partially offset by purchases of available for sale investments.

Net cash used in investing activities in 2010 primarily resulted from net purchases of fixed maturity securities, resulting from AIG's investment of cash generated from operating activities, and the redeployment of liquidity that had been accumulated by the insurance companies in 2009. In 2009, Net cash provided by investing activities reflected from the net proceeds from the sale and maturity of investments.

Financing Cash Flow Activities

Net cash used in financing activities was significantly higher in 2011 primarily due to the repayment of the FRBNY Credit Facility and the $12.4 billion partial repayment of the SPV Preferred Interests in connection with the Recapitalization described in Note 1 to the Consolidated Financial Statements and use of proceeds received from the sales of foreign life insurance entities in 2011. Net cash used in financing activities was significantly lower in 2010 than in 2009, primarily as a result of declines in policyholder contract withdrawals, reflecting improved conditions for the life insurance and retirement services businesses was partially offset by the issuance of long-term debt by ILFC, which is discussed in Liquidity of Parent and Subsidiaries Aircraft Leasing below.

Liquidity of Parent and Subsidiaries

AIG Parent

The Recapitalization in January 2011 involved a series of integrated transactions which had a direct effect on AIG's liquidity activities and financial position. These transactions included the repayment of the FRBNY Credit Facility, and the partial repayment of the liquidation preference of the SPV Preferred Interests. These transactions are more fully described in Note 1 to the Consolidated Financial Statements and are excluded from the Sources of Liquidity and Uses of Liquidity discussions below.

In addition, in 2011, several significant asset sales were completed, including the sale of AIG Star and AIG Edison in February 2011, the sale of the MetLife securities in March 2011, and the sale of Nan Shan in August 2011. Proceeds from these sales primarily were used to pay down the Department of the Treasury's SPV Preferred Interests. These transactions are more fully described in Notes 1 and 4 to the Consolidated Financial Statements and are excluded from the Sources of Liquidity and Uses of Liquidity discussion below.

In May 2011, AIG and the Department of the Treasury, as selling shareholder, completed a registered public offering of AIG Common Stock. AIG issued and sold 100 million shares of AIG Common Stock for aggregate net proceeds of approximately $2.9 billion and the Department of the Treasury sold 200 million shares of AIG Common Stock. AIG did not receive any of the proceeds from the sale of the shares of AIG Common Stock by the Department of the Treasury. A portion of the net proceeds AIG received from the offering, $550 million has been used to fund a litigation settlement, and AIG used the balance of the net proceeds for general corporate purposes.

AIG issues debt securities in the public, private and non-U.S. markets from time to time to meet its financing needs and those of certain of its subsidiaries. AIG engages in secured and unsecured borrowings to support its capital structure, corporate needs and the operations of subsidiaries. Liquidity sources of AIG and its respective subsidiaries are utilized to fund repayment of these obligations, including any additional funding requirements where cash flows from assets supporting borrowing obligations are not sufficient.

On September 13, 2011, AIG raised approximately $2.0 billion in proceeds from the issuance of senior unsecured notes, consisting of $1.2 billion in three-year notes and $800 million in five-year notes. AIG is using the proceeds from the sale of these notes to pay maturing notes that were issued by AIG to fund the MIP.

On October 12, 2011, the previously outstanding AIG 364-Day Syndicated Facility, AIG 3-Year Syndicated Facility and Chartis letter of credit facility were terminated and AIG entered into a $1.5 billion 364-Day Syndicated Facility and a $3.0 billion 4-Year Syndicated Facility. The new 4-Year Syndicated Facility provides for $3.0 billion of revolving loans, which includes a $1.5 billion letter of credit sublimit. The $1.3 billion of previously issued letters of credit under the Chartis letter of credit facility were rolled into the letter of credit sublimit within the 4-Year Syndicated Facility, so that a total of $1.7 billion remains available under this facility, of which $0.2 billion is available for letters of credit. AIG expects that it may draw down on these facilities from time to time, and may use the proceeds for general corporate purposes.

In October 2011, AIG entered into a contingent liquidity facility under which AIG has the right, for a period of one year, to enter into put option agreements, with an aggregate notional amount of up to $500 million, with an unaffiliated international financial institution pursuant to which AIG has the right, for a period of five years from the date any such put option agreement is entered into, to issue up to $500 million in senior debt to the financial institution, at AIG's discretion.

In November 2011, AIG exchanged specified series of its outstanding Junior Subordinated Debentures for newly issued senior notes pursuant to an exchange offer. In particular, AIG exchanged (i) $312 million aggregate principal amount of its outstanding Series A-1 Junior Subordinated Debentures for $256 million aggregate principal amount of its new 6.820 percent Dollar notes due November 15, 2037, (ii) £812 million ($1.3 billion at the December 31, 2011 exchange rate) aggregate principal amount of its outstanding Series A-2 and Series A-8 Junior Subordinated Debentures for £662 million ($1.0 billion at the December 31, 2011 exchange rate) aggregate principal amount of its new 6.765 percent Sterling notes due November 15, 2017 and (iii) €591 million ($766 million at the December 31, 2011 exchange rate) aggregate principal amount of its outstanding Series A-3 Junior Subordinated Debentures for €421 million ($545 million at the December 31, 2011 exchange rate) aggregate principal amount of its new 6.797 percent Euro notes due November 15, 2017. The exchange resulted in a pre-tax gain on extinguishment of debt of approximately $484 million, which is reflected in Net loss on extinguishment of debt in the Consolidated Statement of Operations and a deferred gain of $65 million, which will be amortized as a decrease in interest expense, and is reflected in Other long-term debt in the Consolidated Balance Sheet.

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AIG has established and maintains substantial actual and contingent liquidity.

The following table presents AIG Parent's liquidity:

(In millions)		**As of December 31, 2011**
Cash[(a)]	**$**	**176**
Short-term investments[(b)]		**9,627**
Available capacity under Syndicated Credit Facilities[(c)]		**3,200**
Available capacity under Contingent Liquidity Facilities[(d)]		**1,000**
Total AIG Parent liquidity sources	**$**	**14,003**

(a) *Excludes Cash and Short-term Investments held by AIGFP which are considered to be unrestricted and available for use by AIG Parent of $64 million at December 31, 2011.*

(b) *Includes reverse repurchase agreements totaling $6.6 billion used to reduce unsecured exposures.*

(c) *For additional information relating to the syndicated bank credit facilities, see Credit Facilities below.*

(d) *For additional information relating to the contingent liquidity facilities, see Contingent Liquidity Facilities below.*

Sources of Liquidity

AIG's primary sources of cash flow are dividends, distributions, and other payments from subsidiaries. In 2011, AIG Parent:

- collected $3.3 billion in payments from subsidiaries, including $1.5 billion in dividends from Chartis and $1.4 billion in note repayments from SunAmerica funded by payments of dividends from subsidiaries;
- raised approximately $2.9 billion in net proceeds from the sale of AIG Common Stock;
- raised approximately $2.0 billion in net proceeds from the issuance of senior unsecured notes; and
- arranged a $500 million contingent liquidity facility.

These items are discussed under Liquidity of Parent and Subsidiaries AIG Parent above.

In addition, on September 2, 2011, ILFC Holdings, an indirect, wholly-owned subsidiary of AIG, which is intended to become a holding company for ILFC, filed a registration statement on Form S-1 with the SEC for a proposed initial public offering. The number of shares to be offered, price range and timing for any offering have not been determined. The timing of any offering will depend on market conditions and no assurance can be given regarding the terms of any offering or that an offering will be completed. All proceeds received by AIG will be used to pay down a portion of the liquidation preference of the Department of the Treasury's AIA SPV Preferred Interests.

Uses of Liquidity

AIG Parent's primary uses of cash flow are for debt service, operating expenses and subsidiary capital needs. In 2011, AIG Parent retired $6.2 billion of debt, including $3.2 billion of MIP obligations, and made interest payments totaling $2.2 billion. Approximately $4.4 billion of AIG Parent's cash and short-term investments balance is attributable to the MIP and is available to meet obligations of the DIB. See Liquidity of Parent and Subsidiaries Other Operations Direct Investment Book below for additional details.

AIG Parent made $2.9 billion in net capital contributions to subsidiaries in 2011 (which amount reflects the $3.7 billion contributed to Chartis in response to the reserve strengthening in the fourth quarter of 2010). This transaction was funded from the retention of $2 billion of net cash proceeds from the sale of AIG Star and AIG Edison (for which the Department of the Treasury provided a waiver permitting AIG to use such proceeds for this purpose instead of using the proceeds to pay down the liquidation preference of the SPV Preferred Interests) and available cash at AIG Parent.

AIG believes that it has sufficient liquidity at the AIG Parent level to satisfy future liquidity requirements and meet its obligations, including reasonably foreseeable contingencies or events. No assurance can be given, however, that AIG's cash needs will not exceed its projected liquidity. Additional collateral calls, deterioration in investment portfolios or reserve strengthening affecting statutory surplus, higher surrenders of annuities and other policies, further downgrades in AIG's credit ratings, or catastrophic losses may result in significant additional cash needs, loss of some sources of liquidity or both. Regulatory and other legal restrictions could limit AIG's ability to transfer funds freely, either to or from its subsidiaries.

Chartis

AIG currently expects that its Chartis subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. Chartis subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling $5.3 billion as of December 31, 2011. Further, Chartis businesses maintain significant levels of investment-grade fixed maturity securities, including substantial holdings in government and corporate bonds, which Chartis could monetize in the event liquidity levels are deemed insufficient.

In the first quarter of 2011, Chartis received a capital contribution of $3.7 billion in cash from AIG Parent following the reserve strengthening in the fourth quarter of 2010. Chartis used $1.8 billion of this amount to purchase certain assets from the DIB. Chartis subsequently returned capital of $2.2 billion to AIG Parent in the form of all of the outstanding stock of UGC in the first quarter of 2011. In 2011, Chartis paid dividends of $1.5 billion to AIG Parent.

One or more large catastrophes may require AIG to provide additional support to the affected Chartis operations. In addition, downgrades in AIG's credit ratings could put pressure on the insurer financial strength ratings of its subsidiaries, which could result in non-renewals or cancellations by policyholders and adversely affect the relevant subsidiary's ability to meet its own obligations, and require AIG to provide capital or liquidity support to the subsidiary. Increases in market interest rates may adversely affect the financial strength ratings of Chartis subsidiaries, as rating agency capital models may reduce the amount of available capital relative to required capital. Other potential events that could cause a liquidity strain include economic collapse of a nation or region significant to Chartis operations, nationalization, catastrophic terrorist acts, pandemics or other events causing economic or political upheaval.

In February 2011, AIG entered into CMAs with certain Chartis domestic property and casualty insurance companies. Among other things, the CMAs provide that AIG will maintain the total adjusted capital of these Chartis insurance companies at or above a specified minimum percentage of the companies' projected total authorized control level Risk-Based Capital (RBC) (as defined by National Association of Insurance Commissioners (NAIC) guidelines and determined based on the companies' statutory financial statements). In addition, the CMAs also provide that if the total adjusted capital of these Chartis insurance companies is in excess of a specified minimum percentage of their respective total authorized control level RBCs, subject to board and regulatory approval, the companies would declare and pay ordinary dividends to their equity holders in amounts representing the excess over that required to maintain the specified minimum percentage. In February 2012, AIG and these Chartis insurance companies entered into a new, single CMA, which replaces the CMAs entered into in February 2011. Under the new CMA, the total adjusted capital and total authorized control level RBC of these Chartis insurance companies will be measured as a group (the Fleet) rather than on an individual company basis. As a result, the new CMA provides that AIG will maintain the total adjusted capital of the Fleet at or above a specified minimum percentage of the Fleet's projected total authorized control level RBC (as determined based on the companies' statutory financial statements). In addition, the new CMA provides that if the total adjusted capital of the Fleet is in excess of a specified minimum percentage of the Fleet's total authorized control level RBC, subject to board approval and regulatory requirements (including the maximum amount of ordinary dividends permitted under applicable insurance law), these Chartis insurance companies would declare and pay ordinary dividends to their equity holders in amounts representing the excess over that required to maintain the specified minimum percentage of the Fleet's projected total authorized control level RBC.

Chartis continues to identify cost-effective opportunities to allocate its capital through the use of intercompany reinsurance.

During September 2011, a $725 million letter of credit facility was put in place, under which Chartis and Ascot Corporate Name Limited (ACNL) acted as co-obligors. ACNL, a Chartis subsidiary and member of the Lloyd's of London insurance syndicate (Lloyd's), is required to hold capital at Lloyd's, known as Funds at Lloyds (FAL). Under the new facility, which supports the 2012 and 2013 years of account, the entire FAL requirement of $583 million as of December 31, 2011 was satisfied with a letter of credit.

SunAmerica

Management considers the sources of liquidity for SunAmerica subsidiaries adequate to satisfy future liquidity requirements and meet foreseeable liquidity requirements, including reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. The SunAmerica companies continue to maintain substantial liquidity in the form of cash and short-term investments, totaling $3.8 billion as of December 31, 2011. These subsidiaries generally have been lengthening their investment maturity profile by purchasing investment grade fixed maturity securities in order to reduce the levels of cash, cash equivalents and other short-term instruments that had been maintained during 2009 and 2010. In 2011, the SunAmerica life insurance companies paid dividends and surplus note interest totaling approximately $2.0 billion to their respective holding companies, of which $1.4 billion was used to provide liquidity to AIG Parent through the repayment of intercompany loans. In addition, $125 million from litigation settlement proceeds received by SunAmerica in 2011 was used to provide liquidity to AIG Parent.

The most significant potential liquidity requirements of the SunAmerica companies are the funding of product surrenders, withdrawals and maturities. Given the size and liquidity profile of SunAmerica's investment portfolios, AIG believes that normal deviations from projected claim or surrender experience would not constitute a significant liquidity risk. As part of its risk management framework, SunAmerica is evaluating and will implement programs to enhance its liquidity position and facilitate SunAmerica's ability to maintain a fully invested asset portfolio, including securities lending programs structured to increase liquidity. During 2012, SunAmerica began utilizing securities lending programs, primarily as an additional source of liquidity. In addition, in 2011, certain SunAmerica insurance companies became members of the FHLBs in their respective districts, primarily as an additional source of liquidity. This membership allows them to pledge certain mortgage-backed securities, government and agency securities and other qualifying assets to secure advances obtained from the FHLBs. As of December 31, 2011, SunAmerica had no outstanding borrowings from any of the FHLBs. In January 2012, however, SunAmerica borrowed $36 million from the FHLBs to confirm its ability to access this source of liquidity. Upon any potential event of default by SunAmerica, the FHLBs' recovery would be limited to the amount of SunAmerica's liability under advances borrowed.

In March 2011, AIG entered into CMAs with certain SunAmerica insurance companies. Among other things, the CMAs provide that AIG will maintain the total adjusted capital of these SunAmerica insurance companies at or above a specified minimum percentage of the companies' projected company action level RBCs. In addition, the CMAs also provide that if the total adjusted capital of these SunAmerica insurance companies is in excess of a specified minimum percentage of their respective total company action level RBCs, subject to board and regulatory approval, the companies would declare and pay ordinary dividends to their respective equity holders in amounts representing the excess over that required to maintain the specified minimum percentage. As structured, the CMAs contemplate that the specified minimum percentage would be reviewed and agreed upon at least annually.

Aircraft Leasing

ILFC's sources of liquidity include existing cash and short-term investments of $2.0 billion, future cash flows from operations, debt issuances, and aircraft sales, subject to market and other conditions. Uses of liquidity for ILFC primarily consist of aircraft purchases and debt repayments. In 2011, ILFC improved its liquidity position by entering into an unsecured $2.0 billion three-year revolving credit facility and a secured $1.5 billion term loan facility. In addition, on May 24, 2011, ILFC issued $2.25 billion aggregate principal amount of senior unsecured notes, with $1.0 billion maturing in 2016 and $1.25 billion maturing in 2019. On June 17, 2011, ILFC completed tender offers for the purchase of approximately $1.67 billion aggregate principal amount of notes with maturity dates in 2012 and 2013 for total cash consideration, including accrued interest, of approximately $1.75 billion. ILFC recorded a $61 million loss on the extinguishment of debt during the second quarter of 2011. On December 22, 2011, ILFC issued $650 million aggregate principal amount of senior unsecured notes maturing in 2022. On February 6, 2012, ILFC announced that it intends to raise a new senior secured term loan of $900 million, with the proceeds to be used to repay a portion of its outstanding debt and related interest expense and for general corporate purposes. The senior secured term loan will be secured primarily by a first priority perfected lien on the equity of certain ILFC subsidiaries that directly or indirectly own a pool of aircraft and related leases.

See Debt herein and Note 15 to the Consolidated Financial Statements for further details on ILFC's revolving credit facilities and outstanding debt.

Other Operations

Mortgage Guaranty

AIG currently expects that its UGC subsidiaries will be able to continue to satisfy future liquidity requirements and meet their obligations, including requirements arising out of reasonably foreseeable contingencies or events, through cash from operations and, to the extent necessary, asset dispositions. UGC subsidiaries maintain substantial liquidity in the form of cash and short-term investments, totaling $1.1 billion as of December 31, 2011. Further, UGC businesses maintain significant levels of investment-grade fixed maturity securities, including substantial holdings in municipal and corporate bonds ($3.0 billion in the aggregate at December 31, 2011), which UGC could monetize in the event liquidity levels are insufficient to meet obligations.

Global Capital Markets

AIG Markets acts as the derivatives intermediary between AIG companies and third parties and executes its derivative trades under International Swaps and Derivatives Association, Inc. (ISDA) agreements. The agreements with third parties typically require collateral postings. Many of AIG Markets' transactions with AIG and its subsidiaries also include collateral posting requirements. However, generally, no collateral is called under these contracts unless it is needed to satisfy posting requirements with third parties. The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011. Although the remaining AIGFP derivatives portfolio may experience periodic fair value volatility, the portfolio consists predominantly of transactions AIG believes are of low complexity, low risk, supportive of AIG's risk management objectives or not economically appropriate to unwind based on a cost versus benefit analysis. AIGFP continues to rely upon AIG Parent to meet most of its collateral and other liquidity requirements in connection with its remaining derivatives portfolio.

Cash collateral posted by AIG Markets to third parties was $174 million and $2 million at December 31, 2011 and 2010, respectively. Cash collateral obtained by AIG Markets from third parties was $372 million and $1.1 billion at December 31, 2011 and 2010, respectively.

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

(in millions)		Collateral Posted as of December 31, 2010		Additional Postings, Netted by Counterparty		Collateral Returned by Counterparties		Collateral Posted as of December 31, 2011
Super senior credit default swap (CDS) portfolio	$	3,786	$	594	$	1,183	$	3,197
All other derivatives		1,335		1,511		1,128		1,718
Total	$	5,121	$	2,105	$	2,311	$	4,915

The collateral amounts presented in the table above are reflective of counterparty netting adjustments available under master netting agreements and is inclusive of collateral that exceeds the fair value of derivatives as of the reporting date. Collateral obtained by AIGFP from third parties was $791 million and $2.3 billion at December 31, 2011 and 2010, respectively.

The following table presents the net notional amount and number of outstanding trade positions in AIGFP's portfolios:

(dollars in billions)		December 31, 2011		December 31, 2010		December 31, 2009	Percentage Decrease 2011 vs. 2010	Percentage Decrease 2010 vs. 2009
Net notional amount[(a)]	**$**	**176**	$	341	$	900	(48)%	(62)%
Super senior CDS contracts (included in net notional amount above)		**25**		60		184	(58)	(67)
Outstanding trade positions[(b)]		**2,000**		3,900		16,100	(49)	(76)

(a) *Excludes $10.2 billion, $11.5 billion and $40.7 billion of intercompany derivatives in 2011, 2010 and 2009, respectively.*

(b) *Excludes approximately 4,800 non-derivative trade positions that were transferred to Direct Investment book in 2010.*

Direct Investment Book

As of December 31, 2011, management expects the DIB's investments to provide sufficient return to fund the DIB maturing liabilities. The DIB's investment portfolio consists primarily of cash, short term investments, fixed maturity securities issued by U.S. government and government sponsored entities, mortgage and asset backed securities and to a lesser extent bank loans, mortgage loans and equity securities. While a significant portion of the DIB's liquidity requirements are supported by existing liquidity sources or maturing investments, mismatches in the timing of cash inflows and outflows may require assets to be sold or AIG to access the capital markets to satisfy liquidity requirements. Depending on market conditions and the ability to sell assets if required, proceeds from asset sales may not be sufficient to satisfy the full amount required. Management believes that sufficient liquidity is maintained by the DIB to meet near-term liquidity requirements. Any additional liquidity shortfalls would need to be funded by AIG Parent.

During 2011, $1.8 billion of assets held by the DIB were sold to certain Chartis subsidiaries. In addition, during 2011, AIG assigned approximately 52 percent of AIG's interest in ML III to the DIB, subject to liens on those interests as set forth in the Master Transaction Agreement dated December 8, 2010, among AIG Parent, AM Holdings LLC (formerly known as ALICO Holdings LLC), AIA Aurora LLC, the FRBNY, the Department of the Treasury, and the Trust.

In the third quarter of 2011, AIG issued $2.0 billion aggregate principal amount of senior unsecured notes, $1.2 billion of 4.250% Notes Due 2014 and $800 million of 4.875% Notes Due 2016. The proceeds from the sale of these notes are being used to pay maturing MIP debt and the notes are included within "MIP notes payable" in the debt outstanding table below.

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Debt

Debt Maturities

The following table summarizes maturing debt at December 31, 2011 of AIG and its subsidiaries for the next four quarters:

(in millions)	First Quarter 2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	Total
ILFC	$ 1,032	$ 620	$ 780	$ 591	$ 3,023
Borrowings supported by assets (DIB)	1,347	2,007	234	169	3,757
General borrowings	27	-	-	156	183
Other	1	1	1	-	3
Total	$ 2,407	$ 2,628	$ 1,015	$ 916	$ 6,966

AIG's plans for meeting these maturing obligations are as follows:

ILFC's sources of liquidity available to meet these needs include existing cash and short-term investments of $2.0 billion, future cash flows from operations, debt issuances and aircraft sales, subject to market and other conditions. See Liquidity of Parent and Subsidiaries Aircraft Leasing. Additionally, at December 31, 2011, ILFC had $2.0 billion available under its unsecured three-year revolving credit facility. AIG expects that ILFC will refinance its existing debt or issue additional debt as necessary to meet its maturing debt obligations.

AIG borrowings supported by assets consist of debt under the MIP as well as AIGFP debt included in the DIB. Mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold or AIG to access the capital markets to satisfy maturing liabilities. Depending on market conditions and the 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. At December 31, 2011, all of the debt maturities in the DIB through December 31, 2012 are supported by short-term investments and maturing investments.

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The following table provides the rollforward of AIG's total debt outstanding:

Year Ended December 31, 2011 *(in millions)*	**Balance at December 31, 2010**	**Issuances**	**Maturities and Repayments**	**Effect of Foreign Exchange**	**Other Changes**	**Balance at December 31, 2011**
Debt issued or guaranteed by AIG:						
General borrowings:						
FRBNY Credit Facility	$ 20,985	$ -	$ (20,985)[(a)]	$ -	$ -	**$ -**
Notes and bonds payable	11,511	-	(642)	(52)	1,908[(b)]	**12,725**
Junior subordinated debt	11,740	-	-	(23)	(2,390)[(c)]	**9,327**
Junior subordinated debt attributable to equity units	2,169	-	(2,169)[(d)]	-	-	**-**
Loans and mortgages payable	218	154	(155)	14	3	**234**
SunAmerica Financial Group, Inc. (SAFG, Inc.) notes and bonds payable	298	-	-	-	-	**298**
Liabilities connected to trust preferred stock	1,339	-	-	-	-	**1,339**
Total general borrowings	48,260	154	(23,951)	(61)	(479)	**23,923**
Borrowings supported by assets:						
MIP notes payable	11,318	1,985	(3,200)	174	(130)	**10,147**
Series AIGFP matched notes and bonds payable	3,981	-	(151)	-	(23)	**3,807**
GIAs, at fair value	8,212	655	(1,791)	-	888[(e)]	**7,964**
Notes and bonds payable, at fair value	3,253	40	(1,052)	-	75[(e)]	**2,316**
Loans and mortgages payable, at fair value	678	-	(193)	-	1[(e)]	**486**
Total borrowings supported by assets	27,442	2,680	(6,387)	174	811	**24,720**
Total debt issued or guaranteed by AIG	75,702	2,834	(30,338)	113	332	**48,643**
Debt not guaranteed by AIG:						
ILFC:						
Notes and bonds payable, ECA facility, bank financings and other secured financings[(f)]	26,700	4,572	(8,324)	105	312[(g)]	**23,365**
Junior subordinated debt	999	-	-	-	-	**999**
Total ILFC debt	27,699	4,572	(8,324)	105	312	**24,364**
Other subsidiaries notes, bonds, loans and mortgages payable	446	-	(70)	16	1	**393**
Debt of consolidated investments[(h)]	2,614	356	(481)	(3)	(633)	**1,853**
Total debt not guaranteed by AIG	30,759	4,928	(8,875)	118	(320)	**26,610**
Total debt	$ 106,461	$ 7,762	$ (39,213)	$ 231	$ 12	**$ 75,253**

(a)

Terminated on January 14, 2011 in connection with the Recapitalization. Includes $6.4 billion of paid in-kind interest and fees. See Note 1 to the Consolidated Financial Statements.

(b) *Includes $1.8 billion in new senior unsecured notes issued in exchange for junior subordinated debentures and a $65 million deferred gain on the exchange of the Series A-1 Junior Subordinated Debentures, which will be amortized as a reduction of future interest expense. See Note 15 to the Consolidated Financial Statements for a discussion of the junior subordinated debt exchange offer.*

(c) *See Note 15 to the Consolidated Financial Statements for a discussion of the junior subordinated debt exchange offer.*

(d) *Represents remarketing of debentures related to Equity Units.*

(e) *Primarily represents adjustments to the fair value of debt.*

(f) *Includes $9.8 billion of secured financings, of which $97 million are non-recourse to ILFC.*

(g) *Primarily represents debt assumed related to the acquisition of AeroTurbine.*

(h) *At December 31, 2011, includes debt of consolidated investments held through AIG Global Real Estate Investment Corp., AIG Credit Corp. and SunAmerica of $1.5 billion, $233 million and $91 million, respectively.*

Credit Facilities

AIG relies on credit facilities as potential sources of liquidity for general corporate purposes. Currently, AIG and ILFC maintain committed, revolving credit facilities, including a facility that provides for the issuance of letters of credit, summarized in the following table for general corporate purposes and for letter of credit issuance. AIG intends to replace or extend these credit facilities on or prior to their expiration, although no assurance can be given that these facilities will be replaced on favorable terms or at all. One of the facilities, as noted below, contains a "term-out option" allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans. All facilities, except for ILFC's five-year and four-year AeroTurbine syndicated credit facilities maturing October 2012 and December 2015, respectively, are unsecured.

At December 31, 2011 *(in millions)* **Facility**	**Size**	**Borrower(s)**	**Available Amount**	**Expiration**	**One-Year Term-Out Option**	**Effective Date**
AIG:						
364-Day Syndicated Facility	$ 1,500	AIG	$ 1,500	October 2012	Yes	10/12/2011
4-Year Syndicated Facility	3,000	AIG	1,700	October 2015	No	10/12/2011
Total AIG	$ 4,500		$ 3,200			
ILFC:						
5-Year Syndicated Facility	$ 457	ILFC	$ -	October 2012	No	10/13/2006
4-Year AeroTurbine Syndicated Facility	335	ILFC	66	December 2015	No	12/9/2011
3-Year Syndicated Facility	2,000	ILFC	2,000	January 2014	No	1/31/2011
Total ILFC	$ 2,792		$ 2,066			

On October 12, 2011, the previously outstanding AIG 364-Day Syndicated Facility, AIG 3-Year Syndicated Facility and Chartis letter of credit facility were terminated and AIG entered into a $1.5 billion 364-Day Syndicated Facility and a $3.0 billion 4-Year Syndicated Facility. The new 4-Year Syndicated Facility provides for $3.0 billion of revolving loans, which includes a $1.5 billion letter of credit sublimit. The $1.3 billion of previously issued letters of credit under the Chartis letter of credit facility were rolled into the letter of credit sublimit within the 4-Year Syndicated Facility, so that a total of $1.7 billion remains available under this facility, of which $0.2 billion is available for letters of credit. AIG expects that it may draw down on these facilities from time to time, and may use the proceeds for general corporate purposes. AIG's ability to borrow under these facilities is not contingent on its credit ratings.

AIG's ability to borrow under these facilities is conditioned on the satisfaction of certain legal, operating, administrative and financial covenants and other requirements contained in the facilities, including covenants relating to AIG's maintenance of a specified total consolidated net worth, total consolidated debt to total consolidated capitalization and total priority debt (defined as debt of AIG's subsidiaries and secured debt of AIG) to total consolidated capitalization. Failure to satisfy these and other requirements contained in the credit facilities would restrict AIG's access to the facilities and, consequently, could have a material adverse effect on AIG's financial condition, results of operations and liquidity.

ILFC's three-year credit facility which became effective January 31, 2011 contains customary events of default and restrictive financial covenants that, among other things, restrict ILFC from entering into secured financing in excess of 30 percent of its consolidated tangible net assets, as defined in the agreement, less $2.0 billion, excluding fixed asset financings. As of February 21, 2012, ILFC would be able to incur an additional $3.0 billion of secured indebtedness under this covenant. Prior to April 16, 2010, ILFC had a $2.5 billion five-year syndicated facility which was scheduled to expire in October 2011. ILFC subsequently amended and extended the facility and the $457 million outstanding under the facility currently matures in October 2012. This facility is secured by the equity interest in certain of ILFC's non-restricted subsidiaries, which hold a pool of aircraft with an appraised value of not less than 133 percent of the principal amount of the outstanding loans. The amended facility prohibits ILFC from re-borrowing amounts repaid under this facility for any reason; therefore, the size of the outstanding revolving credit facility is $457 million. ILFC is also a guarantor for a $335 million four-year credit facility entered into by AeroTurbine, a wholly owned subsidiary of ILFC, whose assets are pledged as security for the outstanding amount. In February 2012, ILFC increased AeroTurbine's facility by $95 million to $430 million.

Contingent Liquidity Facilities

AIG has access to contingent liquidity facilities of up to $1 billion as potential sources of liquidity for general corporate purposes:

In 2010, AIG established a $500 million contingent liquidity facility. Under this facility, AIG has the unconditional right, prior to December 15, 2015, to issue up to $500 million in senior debt to the counterparty, based on a put option agreement between AIG and the counterparty.

In October 2011, AIG entered into a contingent liquidity facility under which AIG has the right, for a period of one year, to enter into put option agreements, with an aggregate notional amount of up to $500 million, with an unaffiliated international financial institution pursuant to which AIG has the right, for a period of five years from the date any such put option agreement is entered into, to issue up to $500 million in senior debt to the financial institution, at AIG's discretion.

AIG's ability to borrow under these facilities is not contingent on its credit ratings.

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 February 15, 2012. 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**	**Moody's[(a)]**	**S&P[(b)]**	**Fitch[(c)]**
AIG	P-2 (2nd of 3) *Stable Outlook*	A-2 (2nd of 8)	Baa 1 (4th of 9) *Stable Outlook*	A- (3rd of 8) *Stable Outlook*	BBB (4th of 9) *Stable Outlook*
AIG Financial Products Corp.[(d)]	P-2 *Stable Outlook*	A-2	Baa 1 *Stable Outlook*	A- *Stable Outlook*	-
AIG Funding, Inc.[(d)]	P-2 *Stable Outlook*	A-2	-	-	-
ILFC	Not prime *Positive Outlook*	-	B1 (6th of 9) *Positive Outlook*	BBB-(4th of 8) *Stable Outlook*	BB (5th of 9) *Stable Outlook*

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

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

(c)

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

(d)

AIG guarantees all obligations of AIG Financial Products Corp. and AIG Funding, Inc.

These credit ratings are current opinions of the rating agencies. 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.

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Adverse ratings actions regarding our long-term debt ratings by the major rating agencies would require AIGFP to post additional collateral payments pursuant to, and/or permit the termination of, derivative transactions to which AIGFP is a party, which could adversely affect AIG's business, its consolidated results of operations in a reporting period or its liquidity. Credit ratings estimate a company's ability to meet its obligations and may directly affect the cost and availability to that company of financing. In the event of a further downgrade of AIG's long-term senior debt ratings, AIGFP would be required to post additional collateral, and certain of AIGFP's counterparties would be permitted to elect early termination of contracts.

The actual amount of collateral required to be posted 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.

See Notes 12 and 15 to the Consolidated Financial Statements for further details on AIG's derivative transactions and GIA collateral arrangements.

Contractual Obligations

The following table summarizes contractual obligations in total, and by remaining maturity:

December 31, 2011	**Total**		**Payments due by Period**		
(in millions)	**Payments**	**2012**	**2013 - 2014**	**2015 - 2016**	**Thereafter**
Loss reserves	$ 94,328	$ 20,941	$ 26,035	$ 14,564	$ 32,788
Insurance and investment contract liabilities	232,531	13,770	29,954	25,965	162,842
Aircraft purchase commitments	19,036	1,866	3,190	5,593	8,387
Borrowings	73,400	6,966	12,890	12,065	41,479
Interest payments on borrowings	46,442	4,233	7,877	6,717	27,615
Operating leases	1,748	422	566	332	428
Other long-term obligations[(a)]	169	43	24	3	99
Total[(b)]	$ 467,654	$ 48,241	$ 80,536	$ 65,239	$ 273,638

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

(b) *Does not reflect unrecognized tax benefits of $4.3 billion, the timing of which is uncertain. In addition, the majority of AIGFP's credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At December 31, 2011, the fair value derivative liability was $3.1 billion, relating to AIGFP's super senior multi-sector CDO credit default swap portfolio, 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, at December 31, 2011 AIGFP had posted collateral of $2.7 billion with respect to these swaps.*

Loss Reserves

Loss reserves relate to the Chartis and the Mortgage Guaranty business, and represent future loss and loss adjustment expense payments estimated based on historical loss development payment patterns. Due to the significance of the assumptions used, the payments by period presented above could be materially different from actual required payments.

Management believes that adequate financial resources are maintained by the individual Chartis and UGC subsidiaries to meet the actual required payments under these obligations. These subsidiaries maintain substantial liquidity in the form of cash and short-term investments. Further, these businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds (see Investments herein), which Chartis and UGC could seek to monetize in the event operating cash flows are insufficient. See Capital Resources and Liquidity   Analysis of Sources and Uses of Cash and Capital Resources and Liquidity   Liquidity of Parent and

Subsidiaries for matters that could affect operating cash flows and liquidity of these subsidiaries.

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Insurance and Investment Contract Liabilities

Insurance and investment contract liabilities, including GIC liabilities, relate to SunAmerica businesses and 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 in-force 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 Consolidated Balance Sheet.

Management believes that adequate financial resources are maintained by individual SunAmerica subsidiaries to meet the payments actually required under these obligations. These subsidiaries maintain substantial liquidity in the form of cash and short-term investments. In addition, SunAmerica businesses maintain significant levels of investment-grade fixed income securities, including substantial holdings in government and corporate bonds (see Investments herein), which SunAmerica could seek to monetize in the event operating cash flows are insufficient. Liquidity needs for GIC liabilities are generally expected to be funded through cash flows generated from maturities and sales of invested assets. See Capital Resources and Liquidity Analysis of Sources and Uses of Cash and Capital Resources and Liquidity Liquidity of Parent and Subsidiaries herein for matters that could affect operating cash flows and liquidity of the subsidiaries.

Aircraft Purchase Commitments

At December 31, 2011, ILFC had committed to purchase 232 new aircraft and 26 additional aircraft, mostly through sale-leaseback transactions with airlines, deliverable from 2012 through 2019, with aggregate estimated total remaining payments of approximately $19.0 billion, of which $1.9 billion are coming due in 2012. ILFC also has the right to purchase an additional 50 Airbus aircraft. See Note 16 to the Consolidated Financial Statements, and Capital Resources and Liquidity Liquidity of Parent and Subsidiaries Aircraft Leasing herein.

Borrowings

AIG's borrowings exclude those incurred by consolidated investments and include hybrid financial instrument liabilities recorded at fair value. The repayment of long-term debt maturities and interest accrued on borrowings by AIG and its subsidiaries is expected to be made through maturing investments and asset sales, future cash flows from operations, cash flows generated from invested assets, future debt issuance and other financing arrangements, as more fully described in Capital Resources and Liquidity Liquidity of Parent and Subsidiaries herein.

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Off-Balance Sheet Arrangements and Commercial Commitments

The following table summarizes Off-Balance Sheet Arrangements and Commercial Commitments in total, and by remaining maturity:

December 31, 2011 (in millions)	Total Amounts Committed	Amount of Commitment Expiring 2012	2013 - 2014	2015 - 2016	Thereafter
Guarantees:					
Liquidity facilities[(a)]	$ 643	$ 542	$ -	$ -	$ 101
Standby letters of credit	438	419	15	3	1
Guarantees of indebtedness	170	-	-	-	170
All other guarantees[(b)]	516	84	102	157	173
Commitments:					
Investment commitments[(c)]	2,819	2,462	220	137	-
Commitments to extend credit	194	161	32	-	1
Letters of credit	26	25	1	-	-
Other commercial commitments[(d)]	827	33	3	-	791
Total[(e)]	$ 5,633	$ 3,726	$ 373	$ 297	$ 1,237

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

(b) *Includes residual value guarantees associated with aircraft and SunAmerica construction guarantees connected to affordable housing investments. Excludes potential amounts attributable to indemnification obligations included in asset sales agreements. See Note 16 to the Consolidated Financial Statements.*

(c) *Includes commitments to invest in private equity, hedge funds and mutual funds and commitments to purchase and develop real estate in the United States and abroad. The commitments to invest in private equity funds, hedge funds and other funds are called at the discretion of each fund, as needed for funding new investments or expenses of the fund. The expiration of these commitments is estimated in the table above based on the expected life cycle of the related fund, consistent with past trends of requirements for funding. Investors under these commitments are primarily insurance and real estate subsidiaries.*

(d) *Excludes commitments with respect to pension plans. The annual pension contribution for 2012 is expected to be approximately $91 million for U.S. and non-U.S. plans.*

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

Securities Financing

The fair value of securities transferred under repurchase agreements accounted for as sales was $2.1 billion and $2.7 billion at December 31, 2011 and December 31, 2010, respectively, and the related cash collateral obtained was $1.6 billion and $2.1 billion at December 31, 2011 and December 31, 2010, respectively.

Arrangements with Variable Interest Entities

While AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business, AIG's involvement with VIEs is primarily as a passive investor in fixed maturities (rated and unrated) and equity interests issued by VIEs. AIG consolidates a VIE when it is the primary beneficiary of the entity. For a further discussion of AIG's involvement with VIEs, see Notes 2 and 11 to the Consolidated Financial Statements.

Indemnification Agreements

AIG is subject to financial guarantees and indemnity arrangements in connection with the sales of businesses completed pursuant to its asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation, or breaches of representations, warranties or covenants provided by AIG. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases no such limitation is specified or applicable.

Where estimable, AIG has recorded liabilities for certain of these arrangements. These liabilities are not material in the aggregate. AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements. See Note 16 to the Consolidated Financial Statements for additional information regarding indemnification provisions for the ALICO, AGF, AIG Star and AIG Edison sales.

DIVIDENDS FROM INSURANCE SUBSIDIARIES

Payments of dividends to AIG by its insurance subsidiaries are subject to certain restrictions imposed by regulatory authorities. With respect to AIG's domestic insurance subsidiaries, the payment of any dividend requires formal notice to the insurance department in which the particular insurance subsidiary is domiciled. For example, unless permitted by the New York Superintendent of Insurance, general insurance companies domiciled in New York may not pay dividends to shareholders that, in any 12-month period, exceed the lesser of ten percent of such company's statutory policyholders' surplus or 100 percent of its "adjusted net investment income," as defined. Generally, less severe restrictions applicable to both general and life insurance companies exist in most of the other states in which AIG's insurance subsidiaries are domiciled. Under the laws of many states, an insurer may pay a dividend without prior approval of the insurance regulator when the amount of the dividend is below certain regulatory thresholds. Other foreign jurisdictions may restrict the ability of AIG's foreign insurance subsidiaries to pay dividends. There are also various local restrictions limiting cash loans and advances to AIG by its subsidiaries. Largely as a result of these restrictions, approximately 86 percent of the aggregate equity of AIG's consolidated insurance operations was restricted from transfer to AIG Parent at December 31, 2011. AIG cannot predict how regulatory investigations may affect the ability of its regulated subsidiaries to pay dividends. To AIG's knowledge, no AIG insurance company is currently on any regulatory or similar "watch list" with regard to solvency.

REGULATION AND SUPERVISION

AIG's insurance subsidiaries, like other insurers, are subject to regulation and supervision by the states and jurisdictions in which they do business. AIG Parent is not generally subject to supervision by state regulators, but certain transactions, such as those involving statutorily designated transactions with its insurance company subsidiaries and any transaction involving a change in control of AIG or any of its insurance company subsidiaries, may require the prior approval of state regulators. In the United States, the NAIC has developed Risk-Based Capital (RBC) Model Law requirements. RBC relates an individual insurance company's statutory surplus to the risk inherent in its overall operations.

AIG's insurance subsidiaries file financial statements prepared in accordance with statutory accounting practices prescribed or permitted by domestic and foreign insurance regulatory authorities. The principal differences between statutory financial statements for domestic companies and financial statements prepared in accordance with U.S. GAAP are that in statutory financial statements acquisition costs are expensed instead of being deferred, a large portion of the bond portfolios may be carried at amortized cost, securities are valued on a different basis, assets and liabilities are presented net of reinsurance, policyholder liabilities are valued using more conservative assumptions and certain assets are not admitted under statutory accounting practices and are charged directly to surplus. Further, statutory accounting practices do not give recognition to purchase accounting adjustments and require certain other reserves not required by U.S. GAAP.

As discussed under Note 16(a) to the Consolidated Financial Statements, various regulators have commenced investigations into certain insurance business practices. In addition, insurance regulators routinely conduct examinations of AIG and its subsidiaries. AIG cannot predict the ultimate effect that these investigations and examinations, or any additional regulation arising therefrom, might have on its business. Federal, state or local legislation, including Dodd-Frank, may affect AIG's ability to operate its various financial services businesses, and changes in the current laws, regulations or interpretations thereof may have a material adverse effect on these businesses. See Item 1A. Risk Factors for additional information.

AIG's U.S. operations are subject to guarantee fund assessment laws which exist in most states. As a result of operating in a state that has guarantee fund assessment laws, a solvent insurance company may be assessed for certain obligations arising from the insolvencies of other insurance companies operated in that state. AIG generally records these assessments upon notice. Additionally, certain states permit at least a portion of the assessed amount to be used as a credit against a company's future premium tax liabilities. Therefore, the ultimate net assessment cannot reasonably be estimated. The guarantee fund assessments net of credits recognized in 2011, 2010 and 2009, respectively, were $7 million, $16 million and $18 million.

AIG is also required to participate in various involuntary pools (principally workers' compensation business and, internationally, personal automobile business) that provide insurance coverage for those not able to obtain such coverage in the voluntary markets. This participation is also recorded upon notification, as these amounts cannot reasonably be estimated.

A substantial portion of Chartis' business is conducted in foreign countries. The degree of regulation and supervision in foreign jurisdictions varies. Generally, AIG, as well as the underwriting companies operating in such jurisdictions, must satisfy local regulatory requirements. Licenses issued by foreign authorities to AIG subsidiaries are subject to modification and revocation. Thus, AIG's insurance subsidiaries could be prevented from conducting future business in certain of the jurisdictions where they currently operate. AIG's international operations include operations in various developing nations. Both current and future foreign operations could be adversely affected by unfavorable political developments up to and including nationalization of AIG's operations without compensation. Adverse effects resulting from any one country may affect AIG's results of operations, liquidity and financial condition depending on the magnitude of the event and AIG's net financial exposure at that time in that country.

Foreign insurance operations are individually subject to local solvency margin requirements that require maintenance of adequate capitalization, with which AIG complies in each country. In addition, certain foreign locations, notably Japan, have established regulations that can result in guarantee fund assessments. These have not had a material effect on AIG's financial condition or results of operations.

See Note 18 to the Consolidated Financial Statements for additional information.

INVESTMENTS

INVESTMENT STRATEGIES

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 the Direct Investment book. The primary objectives are generation of investment income, preservation of capital, liquidity management and growth of surplus to support the insurance products.

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 and retirement services companies, as well as in the Direct Investment book, the fundamental investment strategy is, as nearly as is practicable, to match the duration characteristics of the liabilities with assets of comparable duration. Domestically, fixed maturity securities held by the insurance companies included in Chartis historically have consisted primarily of laddered holdings of tax-exempt municipal bonds, which provided attractive after-tax returns and limited credit risk. In order to meet the current risk-return and tax objectives of Chartis, the domestic property and casualty companies have begun to shift investment allocations away from tax-exempt municipal bonds towards taxable instruments which meet the companies' liquidity, duration and credit quality objectives as well as current risk-return and tax objectives. Outside of the U.S., fixed maturity securities held by Chartis 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 accounts for the vast majority of the invested assets held by its insurance companies at fair value. However, with limited exceptions (primarily with respect to separate account products on AIG's Consolidated Balance Sheet), AIG does not modify 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.

At December 31, 2011, approximately 88 percent of the fixed maturity securities were held by domestic entities. Approximately 21 percent of such securities were rated AAA by one or more of the principal rating agencies. Approximately 13 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 perspective 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 Management department closely reviews the credit quality of the foreign portfolio's non-rated fixed maturity securities. At December 31, 2011, approximately 26 percent of the foreign fixed maturity 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 3 percent were below investment grade or not rated at that date. Approximately 51 percent of the foreign fixed maturity portfolio are sovereign fixed maturity securities supporting policy liabilities in the country of issuance.

INVESTMENT HIGHLIGHTS

During 2011, significant volatility in the capital markets resulted in challenging conditions, both domestically and globally. Ten-year U.S. Treasuries dropped to historic lows as rates were down 142 basis points, settling at 1.88 percent at the end of the year. Rates were mixed as Germany, France, and other perceived strong economies followed the downward direction of U.S. rates, while countries such as Greece, Spain, and Italy saw a significant increase in their borrowing costs due to rising concerns over their fiscal situations. Equity markets started the year strongly, and were positive in the first half of the year before turning negative in the second half as the European sovereign debt crisis intensified, catastrophe losses approached record levels, unemployment remained at elevated levels, and a continued political standoff over measures addressing the U.S. deficit led to the first ever downgrade of U.S. sovereign debt. Domestic equity markets were flat for the year, outperforming their foreign counterparts. The performance in equity markets for 2011 stood in contrast to 2010, during which most markets recorded positive returns. The swing from positive to negative equity market performance, combined with capital markets volatility and a historically low interest rate environment in the U.S., resulted in lower net investment income in 2011 compared to 2010.

An overview of investment activities during 2011 is provided below:

Asset Composition

Insurance operations purchased approximately $92 billion of fixed maturity securities. The purchases were made using proceeds from sales and maturity of securities, paydowns on structured securities, cash flow from operations and investments, and from the redeployment of existing cash and short-term investments. Short-term investments were redeployed into approximately $23 billion of higher yielding fixed maturity securities during 2011.

Corporate debt (primarily high grade) represented approximately half of new purchases. Risk-weighted opportunistic investments in structured securities continued to be made to improve yields and increase net

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investment income. The amount of such purchases totaled approximately $11 billion. The 2011 purchases of structured securities largely replaced similar assets sold on behalf of SunAmerica in 2010. In the case of Chartis, these purchases of structured securities were part of a deliberate diversification of the asset portfolio of the domestic property and casualty companies.

Base yields at Chartis were higher in 2011 compared to 2010 due to redeployment activities and the increase due to investments in structured securities. SunAmerica base yields were lower as new money rates were generally lower than on maturing or called investments; however, the impact was largely offset by the effect of cash redeployment.

A strategic decision was made to reduce the tax-exempt municipal bond portfolio exposure, resulting in an approximate decrease of $12 billion in the carrying value (30 percent) of this asset class during the course of the year.

Net Investment Income

Income on private equity and hedge funds was approximately $1.3 billion (7 percent yield) in 2011, compared to $1.7 billion (9 percent yield) in 2010 which directionally followed the equity market trends as $1.2 billion of income was recognized in the first half of the year. Private equity funds drove the positive results in 2011 as hedge funds were only marginally positive for the year. In 2010, hedge funds and private equity funds each yielded approximately 9 percent.

The fair value change for the Maiden Lane Interests turned negative in 2011 due to widening spread trends and negative changes in future cash flow projections. The fair value change for 2011 was a loss of $0.6 billion compared to a gain of $2.3 billion for 2010.

The fair value of AIA ordinary shares increased by $1.3 billion as the stock price appreciated 11 percent in 2011 compared to a decrease in 2010 which resulted in a loss of $0.6 billion in 2010. The 11 percent appreciation on the stock compared favorably to the 20 percent decline experienced in the Hang Seng Index.

Unrealized and Realized Gains and Losses

Lower yields across most asset classes resulted in an increase of approximately $5.5 billion of unrealized appreciation on AIG's available for sale securities in 2011. This was slightly lower than the 2010 period. 2010 benefited from improving economic conditions in the post recession period.

Net realized gains on the sales of fixed maturity securities and equities totaled $2.1 billion in 2011 compared to $2.6 billion in 2010. Current year results consist primarily of gains on the sales of tax exempt municipal securities and corporate debt.

Other-than-temporary impairments were $1.3 billion in 2011 compared to $3.0 billion in 2010, primarily related to impairments recorded on the mortgage backed, asset backed and collateralized portfolio in both periods.

The credit ratings in the table below and in subsequent tables reflect for AIG's fixed maturity investments: (a) a composite of the ratings of the three major rating agencies or where agency ratings are not available, the rating assigned by the National Association of Insurance Commissioners (NAIC) Securities Valuations Office (SVO) (over 97 percent of total fixed maturity investments), or (b) AIG's equivalent internal ratings where these investments have not been rated by any of the major rating agencies or the NAIC. AIG changed to a composite ratings methodology during 2011 in order to reduce reliance on any single rating agency, and ratings information for prior periods presented has been conformed to this method. The "Non-rated" category in those tables consists of fixed maturity investments that have not been rated by any of the major rating agencies, the NAIC or AIG, and represents primarily AIG's interest in ML III.

See Enterprise Risk Management herein for a discussion of credit risks associated with Investments.

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The following table presents the credit ratings of AIG's fixed maturity investments based on fair value:

December 31,	2011	2010
Rating:		
AAA	**21%**	21%
AA	**20**	25
A	**22**	20
BBB	**25**	23
Below investment grade	**10**	7
Non-rated	**2**	4
Total	**100%**	100%

The remainder of Investments is organized as follows:

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INVESTMENTS BY SEGMENT

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

	Reportable Segment				
(in millions)	Chartis	SunAmerica	Aircraft Leasing	Other Operations	Total
December 31, 2011					
Fixed maturity securities:					
Bonds available for sale, at fair value	**$ 103,831**	**$ 154,912**	**$ -**	**$ 5,238**	**$ 263,981**
Bond trading securities, at fair value	**88**	**1,583**	**-**	**22,693**	**24,364**
Equity securities:					
Common and preferred stock available for sale, at fair value	**2,895**	**208**	**1**	**520**	**3,624**
Common and preferred stock trading, at fair value	**-**	**-**	**-**	**125**	**125**
Mortgage and other loans receivable, net of allowance	**553**	**16,759**	**90**	**2,087**	**19,489**
Flight equipment primarily under operating leases, net of accumulated depreciation	**-**	**-**	**35,539**	**-**	**35,539**
Other invested assets	**12,279**	**12,560**	**-**	**15,905** *(c)*	**40,744**
Short-term investments	**4,660**	**3,318**	**1,910**	**12,684**	**22,572**
Total investments *(a)*	**124,306**	**189,340**	**37,540**	**59,252**	**410,438**
Cash	**673**	**463**	**65**	**273**	**1,474**
Total invested assets	**$ 124,979**	**$ 189,803**	**$ 37,605**	**$ 59,525**	**$ 411,912**
December 31, 2010					
Fixed maturity securities:					
Bonds available for sale, at fair value	$ 88,904	$ 128,347	$ -	$ 11,051	$ 228,302
Bond trading securities, at fair value	-	1,307	-	24,875	26,182
Equity securities:					
Common and preferred stock available for sale, at fair value	3,827	218	2	534	4,581
Common and preferred stock trading, at fair value	-	1	-	6,651	6,652
Mortgage and other loans receivable, net of allowance	690	16,727	134	2,686	20,237
Flight equipment primarily under operating leases, net of accumulated depreciation	-	-	38,510	-	38,510
Other invested assets	13,743	13,069	-	15,398 *(c)*	42,210
Short-term investments	11,799	19,160	3,058	9,721	43,738
Total investments *(a)*	118,963	178,829	41,704	70,916	410,412
Cash	572	270	9	707	1,558
Total invested assets *(b)*	$ 119,535	$ 179,099	$ 41,713	$ 71,623	$ 411,970

(a) *At December 31, 2011, approximately 90 percent and 10 percent of investments were held by domestic and foreign entities, respectively, compared to approximately 85 percent and 15 percent, respectively, at December 31, 2010.*

(b) *Total invested assets of businesses held for sale amounted to $96.3 billion and are excluded. See Note 4 to the Consolidated Financial Statements.*

(c) *Includes $12.4 billion and $11.1 billion of AIA ordinary shares at December 31, 2011 and December 31, 2010, respectively.*

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Chartis

In AIG's general insurance business, the duration of liabilities for long-tail casualty lines is greater than other lines. As differentiated from the life insurance and retirement services companies, the focus is not on asset-liability matching, but on preservation of capital and growth of surplus.

Fixed income holdings of Chartis domestic operations, with an average duration of 4.3 years, are currently comprised primarily of tax-exempt securities, which provide attractive risk-adjusted after-tax returns as well as taxable municipal bonds, government bonds and agency and corporate securities. The majority of these high quality investments are rated A or higher.

Fixed income assets held in Chartis foreign operations are of high quality and short to intermediate duration, averaging 4 years.

While invested assets backing reserves are invested in conventional fixed income securities in Chartis domestic operations, a modest portion of surplus is allocated to large capitalization, high-dividend, public equity strategies and to alternative investments, including private equity and hedge funds. Notwithstanding the current environment, these investments have provided a combination of added diversification and attractive long-term returns over time.

SunAmerica

With respect to SunAmerica companies, AIG uses asset-liability management as a tool to determine the composition of the invested assets. AIG's objective is to maintain a matched asset-liability structure, although AIG may occasionally determine that it is economically advantageous to be temporarily in an unmatched position. To the extent that AIG has maintained a matched asset-liability structure, the economic effect of interest rate fluctuations is partially mitigated.

AIG's investment strategy for SunAmerica is to produce cash flows greater than maturing insurance liabilities. There exists a future investment risk associated with certain policies currently in-force which will have premium receipts in the future. That is, the investment of these future premium receipts may be at a yield below that required to meet future policy liabilities.

SunAmerica frequently reviews its interest rate assumptions and actively manages the crediting rates used for its new and in force business. Business strategies continue to evolve to maintain profitability of the overall business.

The investment of insurance cash flows and reinvestment of the proceeds of matured securities and coupons requires active management of investment yields while maintaining satisfactory investment quality and liquidity.

A number of guaranteed benefits, such as living benefits and guaranteed minimum death benefits, are offered on certain variable and indexed annuity products. The fair value of these benefits is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. SunAmerica manages its exposure resulting from these long-term guarantees through reinsurance or capital market hedging instruments. SunAmerica actively reviews underlying assumptions of policyholder behavior and persistency related to these guarantees. SunAmerica has taken positions in certain derivative financial instruments in order to hedge the impact of changes in equity markets and interest rates on these benefit guarantees. SunAmerica executes listed futures and options contracts on equity indexes to hedge certain guarantees of variable and indexed annuity products. SunAmerica also enters into various types of futures and options contracts, primarily to hedge changes in value of certain guarantees of variable and indexed annuities due to fluctuations in interest rates. SunAmerica uses several instruments to hedge interest rate exposure, including listed futures on government securities, listed options on government securities and, beginning in 2012, the purchase of government securities.

With respect to over-the-counter derivatives, SunAmerica deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. SunAmerica has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and

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assessing the creditworthiness of counterparties periodically. SunAmerica generally uses ISDA Master Agreements and Credit Support Annexes (CSAs) with bilateral collateral provisions to reduce counterparty credit exposures.

Other Operations

Global Capital Markets

The active wind-down of the AIGFP derivatives portfolio was completed by the end of the second quarter of 2011. AIGFP derivative transactions are carried at fair value. AIGFP reduces its market risk exposure through similarly valued offsetting transactions including swaps, trading securities, options, forwards and futures. For discussion on the use of derivatives by AIGFP, see Note 12 to the Consolidated Financial Statements.

Direct Investment book

The DIB, which includes the Matched Investment Program and non-derivative assets and liabilities of AIGFP, was originally created to generate spread income from investments yielding greater returns than the related cost of funds. The DIB's investment portfolio, which has a carrying value on the Consolidated Balance Sheet of $27.5 billion, consists primarily of cash, short term investments, fixed maturity securities issued by U.S. government and government sponsored entities, mortgage and asset backed securities and to a lesser extent bank loans, mortgage loans and equity securities. Although the DIB is in wind-down, the investment strategy remains focused on maximizing the value of the portfolio while producing sufficient liquidity to meet the obligations of the DIB. The management of the DIB investment portfolio seeks to minimize interest rate, currency, commodity and equity risk associated with the investment strategy by utilizing derivatives. The use of these derivatives does not qualify for hedge accounting treatment; although, management believes these provide appropriate economic hedges of the underlying risk within the investment portfolio.

Further, management seeks to maximize the value of the investment portfolio through an ongoing evaluation of each position in determining whether to hold, sell or finance the investments in furtherance of the strategy, which includes both immediate and long term liquidity needs.

The investments of the DIB are all generally carried at fair value with the exception of loans and notes receivable held by MIP of $1.1 billion, which are carried at amortized cost and evaluated for impairment each period. The investments of AIGFP are generally subject to the fair value option with all changes in fair value recorded in earnings. The investments within the MIP are generally available-for-sale securities, where changes in fair value are presented in unrealized appreciation (depreciation) of investments, net of taxes, as a component of Accumulated other comprehensive income which are subject to impairment review each period.

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AVAILABLE FOR SALE INVESTMENTS

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

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[a]
December 31, 2011					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 5,661	$ 418	$ (1)	$ 6,078	$ -
Obligations of states, municipalities and political subdivisions	35,017	2,554	(73)	37,498	(28)
Non-U.S. governments	24,568	1,269	(102)	25,735	-
Corporate debt	134,974	11,569	(1,725)	144,818	115
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,780	1,387	(1,563)	34,604	(716)
CMBS	8,449	470	(973)	7,946	(276)
CDO/ABS	7,321	454	(473)	7,302	49
Total mortgage-backed, asset-backed and collateralized	50,550	2,311	(3,009)	49,852	(943)
Total bonds available for sale[b]	250,770	18,121	(4,910)	263,981	(856)
Equity securities available for sale:					
Common stock	1,682	1,839	(100)	3,421	-
Preferred stock	83	60	-	143	-
Mutual funds	55	6	(1)	60	-
Total equity securities available for sale	1,820	1,905	(101)	3,624	-
Other invested assets carried at fair value[c]	5,155	1,611	(269)	6,497	-
Total	$ 257,745	$ 21,637	$ (5,280)	$ 274,102	$ (856)

December 31, 2010										
Bonds available for sale:										
U.S. government and government sponsored entities	$	7,239	$	184	$	(73)	$	7,350	$	-
Obligations of states, municipalities and political subdivisions		45,297		1,725		(402)		46,620		2
Non-U.S. governments		16,142		741		(75)		16,808		(28)
Corporate debt		117,367		8,725		(1,198)		124,894		99
Mortgage-backed, asset-backed and collateralized:										
RMBS		20,661		700		(1,553)		19,808		(648)
CMBS		7,320		240		(1,149)		6,411		(218)
CDO/ABS		6,643		402		(634)		6,411		32
Total mortgage-backed, asset-backed and collateralized		34,624		1,342		(3,336)		32,630		(834)
Total bonds available for sale[(b)]		220,669		12,717		(5,084)		228,302		(761)
Equity securities available for sale:										
Common stock		1,820		1,931		(52)		3,699		-
Preferred stock		400		88		(1)		487		-
Mutual funds		351		46		(2)		395		-
Total equity securities available for sale		2,571		2,065		(55)		4,581		-
Other invested assets carried at fair value[(c)]		5,392		1,256		(60)		6,588		-
Total[(d)]	$	228,632	$	16,038	$	(5,199)	$	239,471	$	(761)

(a) *Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive income. This amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.*

(b) *At December 31, 2011 and 2010, bonds available for sale held by AIG that were below investment grade or not rated totaled $24.2 billion and $18.6 billion, respectively.*

(c) *Represents private equity and hedge fund investments carried at fair value for which unrealized gains and losses are required to be recognized in other comprehensive income.*

(d) *Excludes $80.5 billion of available for sale securities at fair value from businesses held for sale at December 31, 2010. Net unrealized gain attributable to businesses held for sale totaled $604 million at December 31, 2010. See Note 4 to the Consolidated Financial Statements.*

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The following table presents the fair value of AIG's available for sale U.S. municipal bond portfolio by state and type:

December 31, 2011 *(in millions)*	**State General Obligation**	**Local General Obligation**	**Revenue**	**Total Fair Value**
State:				
California	$ 589	$ 1,228	$ 3,316	$ 5,133
Texas	242	2,641	2,205	5,088
New York	1	886	3,854	4,741
Washington	671	324	893	1,888
Massachusetts	930	10	841	1,781
Illinois	171	675	675	1,521
Florida	526	9	969	1,504
Georgia	630	89	471	1,190
Virginia	88	232	866	1,186
Arizona	-	161	835	996
Ohio	238	193	541	972
Pennsylvania	552	100	216	868
New Jersey	11	3	728	742
All Other	2,203	1,609	6,019	9,831
Total[(a)(b)]	**$ 6,852**	**$ 8,160**	**$ 22,429**	**$ 37,441**

(a) *Excludes certain university and not- for- profit entities that issue in the corporate debt market. Includes industrial revenue bonds.*

(b) *Includes $5.7 billion of pre-refunded municipal bonds.*

At December 31, 2011, the U.S. municipal bond portfolio was composed primarily of essential service revenue bonds and high-quality tax -backed bonds with 97 percent of the portfolio rated A or higher.

The following table presents the industry categories of AIG's available for sale corporate debt securities based on amortized cost:

December 31, Industry Category	**2011**	**2010**[(a)]
Financial institutions:		
Money Center/Global Bank Groups	**11%**	12%
Regional banks other	**3**	3
Life insurance	**4**	4
Securities firms and other finance companies	**1**	2
Insurance non-life	**1**	4
Regional banks North America	**2**	2
Other financial institutions	**8**	5
Utilities	**16**	16
Communications	**8**	8
Consumer noncyclical	**11**	8
Capital goods	**6**	6
Energy	**7**	6
Consumer cyclical	**7**	8
Other	**15**	16

Total(b)	**100%**	100%

(a) *Excludes corporate debt of businesses held for sale.*

(b) *At December 31, 2011 and 2010, approximately 95 percent and 93 percent, respectively, of these investments were rated investment grade.*

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Investments in RMBS

The following table presents AIG's RMBS investments by year of vintage:

	December 31, 2011					December 31, 2010				
(in millions)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Percent of Amortized Cost**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Percent of Amortized Cost**
Total RMBS*										
2011	**$ 8,972**	**$ 306**	**$ (31)**	**$ 9,247**	**26%**	$ -	$ -	$ -	$ -	-%
2010	**3,787**	**139**	**(1)**	**3,925**	**11**	4,157	11	(53)	4,115	20
2009	**598**	**22**	**-**	**620**	**2**	881	9	(3)	887	4
2008	**665**	**49**	**-**	**714**	**2**	937	39	(2)	974	5
2007	**5,225**	**153**	**(330)**	**5,048**	**15**	2,836	114	(213)	2,737	14
2006 and prior	**15,533**	**718**	**(1,201)**	**15,050**	**44**	11,850	527	(1,282)	11,095	57
Total RMBS	**$ 34,780**	**$ 1,387**	**$ (1,563)**	**$ 34,604**	**100%**	$ 20,661	$ 700	$ (1,553)	$ 19,808	100%
Agency										
2011	**$ 6,701**	**$ 306**	**$ (2)**	**$ 7,005**	**44%**	$ -	$ -	$ -	$ -	-%
2010	**3,636**	**139**	**(1)**	**3,774**	**24**	4,067	10	(52)	4,025	40
2009	**528**	**21**	**-**	**549**	**3**	784	9	(3)	790	8
2008	**665**	**49**	**-**	**714**	**4**	937	39	(2)	974	9
2007	**549**	**43**	**-**	**592**	**4**	526	36	(2)	560	5
2006 and prior	**3,303**	**420**	**-**	**3,723**	**21**	3,825	357	(1)	4,181	38
Total Agency	**$ 15,382**	**$ 978**	**$ (3)**	**$ 16,357**	**100%**	$ 10,139	$ 451	$ (60)	$ 10,530	100%
Alt-A										
2011	**$ -**	**$ -**	**$ -**	**$ -**	**-%**	$ -	$ -	$ -	$ -	-%
2010	**63**	**1**	**-**	**64**	**1**	70	1	(1)	70	2
2009	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2008	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2007	**1,783**	**59**	**(191)**	**1,651**	**28**	1,004	39	(76)	967	28
2006 and prior	**4,437**	**76**	**(420)**	**4,093**	**71**	2,449	41	(380)	2,110	70
Total Alt-A	**$ 6,283**	**$ 136**	**$ (611)**	**$ 5,808**	**100%**	$ 3,523	$ 81	$ (457)	$ 3,147	100%
Subprime										
2011	**$ -**	**$ -**	**$ -**	**$ -**	**-%**	$ -	$ -	$ -	$ -	-%
2010	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2009	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2008	**-**	**-**	**-**	**-**	**-**	44	-	-	44	3
2007	**79**	**13**	**(12)**	**80**	**4**	111	19	(5)	125	9
2006 and prior	**1,713**	**25**	**(362)**	**1,376**	**96**	1,104	16	(317)	803	88
	$ 1,792	**$ 38**	**$ (374)**	**$ 1,456**	**100%**	$ 1,259	$ 35	$ (322)	$ 972	100%

Total Subprime									
Prime non-agency									
2011	**$ 2,270**	**$ -**	**$ (29)**	**$ 2,241**	**21%**	$ -	$ -	$ -	$ -	-%
2010	**88**	**-**	**-**	**88**	**1**	20	-	(1)	19	-
2009	**70**	**1**	**-**	**71**	**1**	97	-	-	97	2
2008	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
2007	**2,672**	**28**	**(105)**	**2,595**	**24**	1,097	19	(71)	1,045	21
2006 and prior	**5,802**	**153**	**(356)**	**5,599**	**53**	4,010	96	(483)	3,623	77
Total Prime non-agency	**$ 10,902**	**$ 182**	**$ (490)**	**$ 10,594**	**100%**	$ 5,224	$ 115	$ (555)	$ 4,784	100%
Total Other Housing Related	**$ 421**	**$ 53**	**$ (85)**	**$ 389**	**100%**	$ 516	$ 18	$ (159)	$ 375	100%

* *Includes foreign and jumbo RMBS-related securities.*

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The following table presents AIG's RMBS investments by credit rating: