AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
November 06, 2009

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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

or

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

For the transition period from to
Commission File Number 1-8787

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.)
70 Pine Street, New York, New York	**10270**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

As of October 30, 2009, there were 134,607,379 shares outstanding of the registrant's common stock.

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Part I FINANCIAL INFORMATION

ITEM 1. Financial Statements (unaudited)

Consolidated Balance Sheet

(in millions)(unaudited)	September 30, 2009	December 31, 2008
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2009 $379,817; 2008 $373,600)	**$ 380,105**	$ 363,042
Bond trading securities, at fair value	**31,432**	37,248
Securities lending invested collateral, at fair value (cost: 2009 $952; 2008 $3,905)	**806**	3,844
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2009 $7,229; 2008 $8,381)	**10,272**	8,808
Common and preferred stock trading, at fair value	**14,482**	12,335
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2009 $119; 2008 $131)	**31,985**	34,687
Finance receivables, net of allowance	**23,861**	30,949
Flight equipment primarily under operating leases, net of accumulated depreciation	**44,383**	43,395
Other invested assets (portion measured at fair value: 2009 $15,602; 2008 $19,196)	**43,249**	51,978
Securities purchased under agreements to resell, at fair value	**2,181**	3,960
Short-term investments (portion measured at fair value: 2009 $26,564; 2008 $19,316)	**55,170**	46,666
Total investments	**637,926**	636,912
Cash	**4,957**	8,642
Investment income due and accrued	**6,020**	5,999
Premiums and insurance balances receivable, net of allowance	**15,481**	17,330
Reinsurance assets, net of allowance	**22,697**	23,495
Trade receivables	**1,246**	1,901
Current and deferred income taxes	**4,966**	11,734
Deferred policy acquisition costs	**44,007**	45,782
Real estate and other fixed assets, net of accumulated depreciation	**4,543**	5,566
Unrealized gain on swaps, options and forward transactions, at fair value	**10,730**	13,773
Goodwill	**5,847**	6,952
Other assets, including prepaid commitment asset of $12,992 in 2009 and $15,458 in 2008 (portion measured at fair value: 2009 $316; 2008 $369)	**26,371**	31,190
Separate account assets, at fair value	**59,553**	51,142
Total assets	**$ 844,344**	$ 860,418

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Balance Sheet *(Continued)*

(in millions, except share data)(unaudited)	September 30, 2009	December 31, 2008
Liabilities:		
Liability for unpaid claims and claims adjustment expense	**$ 81,599**	$ 89,258
Unearned premiums	**23,126**	25,735
Future policy benefits for life and accident and health insurance contracts	**148,090**	142,334
Policyholder contract deposits (portion measured at fair value: 2009 $8,817; 2008 $5,458)	**220,268**	226,700
Other policyholder funds	**14,122**	13,240
Commissions, expenses and taxes payable	**4,730**	5,436
Insurance balances payable	**4,920**	3,668
Funds held by companies under reinsurance treaties	**1,593**	2,133
Securities sold under agreements to repurchase (portion measured at fair value: 2009 $2,747; 2008 $4,508)	**3,285**	5,262
Trade payables	**661**	977
Securities and spot commodities sold but not yet purchased, at fair value	**1,036**	2,693
Unrealized loss on swaps, options and forward transactions, at fair value	**5,292**	6,238
Trust deposits and deposits due to banks and other depositors (portion measured at fair value: 2009 $31; 2008 $30)	**3,181**	4,498
Commercial paper and other short-term debt	**-**	613
Federal Reserve Bank of New York Commercial Paper Funding Facility (portion measured at fair value: 2009 $6,233; 2008 $6,802)	**9,607**	15,105
Federal Reserve Bank of New York credit facility	**41,009**	40,431
Other long-term debt (portion measured at fair value: 2009 $15,263; 2008 $16,595)	**122,197**	137,054
Securities lending payable	**1,080**	2,879
Other liabilities (portion measured at fair value: 2009 $60; 2008 $1,355)	**21,300**	22,296
Separate account liabilities	**59,553**	51,142
Total liabilities	**766,649**	797,692
Commitments, contingencies and guarantees (see Note 10)		
Redeemable noncontrolling interest in partially owned consolidated subsidiaries	**1,158**	1,921
AIG shareholders' equity:		
Preferred stock, Series E; $5.00 par value; shares issued: 2009 400,000, at aggregate liquidation value	**41,605**	-
Preferred stock, Series F; $5.00 par value; shares issued: 2009 300,000, aggregate liquidation value of $3,205,512,000	**3,041**	-
Preferred stock, Series C; $5.00 par value; shares issued: 2009 100,000, aggregate liquidation value of $500,000	**23,000**	-
Preferred stock, Series D; $5.00 par value; shares issued: 2009 0 and 2008 4,000,000, at aggregate liquidation value	**-**	40,000
Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2009 147,377,020; 2008 147,401,900	**368**	368
Treasury stock, at cost; 2009 12,773,841; 2008 12,918,446 shares of common stock	**(8,273)**	(8,450)
Additional paid-in capital	**14,664**	39,488
Accumulated deficit	**(2,618)**	(12,368)
Accumulated other comprehensive income (loss)	**925**	(6,328)
Total AIG shareholders' equity	**72,712**	52,710
Noncontrolling interest	**3,825**	8,095
Total equity	**76,537**	60,805

Total liabilities and equity	**$**	**844,344**	$	860,418

See Accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Income (Loss)

(dollars in millions, except per share data) *(unaudited)*	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Revenues:				
Premiums and other considerations	**$ 16,041**	$ 21,082	**$ 52,630**	$ 63,489
Net investment income	**8,656**	2,946	**19,724**	14,628
Net realized capital losses:				
Total other-than-temporary impairments on available for sale securities	**(1,148)**	(19,706)	**(6,199)**	(31,966)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Accumulated other comprehensive loss	**(11)**	-	**358**	-
Net other-than-temporary impairments on available for sale securities recognized in net income (loss)	**(1,159)**	(19,706)	**(5,841)**	(31,966)
Other realized capital gains (losses)	**(1,778)**	1,394	**(1,497)**	1,484
Total net realized capital losses	**(2,937)**	(18,312)	**(7,338)**	(30,482)
Unrealized market valuation gains (losses) on AIGFP super senior credit default swap portfolio	**959**	(7,054)	**1,143**	(21,726)
Other income	**3,330**	2,236	**9,873**	8,953
Total revenues	**26,049**	898	**76,032**	34,862
Benefits, claims and expenses:				
Policyholder benefits and claims incurred	**15,882**	17,189	**49,198**	51,521
Policy acquisition and other insurance expenses	**4,812**	6,782	**15,569**	18,166
Interest expense	**2,510**	2,297	**7,955**	4,902
Restructuring expenses and related asset impairment and other expenses	**371**	-	**1,076**	-
Other expenses	**2,681**	2,815	**7,490**	8,478
Total benefits, claims and expenses	**26,256**	29,083	**81,288**	83,067
Loss before income tax benefit	**(207)**	(28,185)	**(5,256)**	(48,205)
Income tax benefit	**(192)**	(3,480)	**(1,953)**	(10,374)
Net loss	**(15)**	(24,705)	**(3,303)**	(37,831)
Less: net loss attributable to noncontrolling interest	**(470)**	(237)	**(1,227)**	(201)

Net income (loss) attributable to AIG	**$**	**455**	$	(24,468)	**$**	**(2,076)**	$	(37,630)
Net income (loss) attributable to AIG common shareholders	**$**	**92**	$	(24,468)	**$**	**(3,371)**	$	(37,630)
Income (loss) per common share attributable to AIG:								
Basic	**$**	**0.68**	$	(181.02)	**$**	**(24.92)**	$	(287.99)
Diluted	**$**	**0.68**	$	(181.02)	**$**	**(24.92)**	$	(287.99)
Dividends declared per common share	**$**	**-**	$	-	**$**	**-**	$	8.33
Weighted average shares outstanding:								
Basic		**135,293,841**		135,169,101		**135,276,345**		130,665,862
Diluted		**135,456,372**		135,169,101		**135,276,345**		130,665,862

See Accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Comprehensive Income (Loss)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions) (unaudited)	**2009**	**2008**	**2009**	**2008**
Net loss	**$ (15)**	$ (24,705)	**$ (3,303)**	$ (37,831)
Other comprehensive income (loss):				
Cumulative effect of change in accounting principle	**-**	-	**-**	(162)
Income tax benefit on above change in accounting principle	**-**	-	**-**	57
Unrealized appreciation (depreciation) of fixed maturity investments on which other-than-temporary credit impairments were taken	**758**	-	**1,870**	-
Income tax benefit (expense) on above changes	**(221)**	-	**(671)**	-
Unrealized appreciation (depreciation) of all other investments net of reclassification adjustments	**18,164**	(6,756)	**23,749**	(21,170)
Income tax benefit (expense) on above changes	**(6,481)**	2,678	**(8,952)**	7,491
Foreign currency translation adjustments	**408**	(1,420)	**1,403**	(224)
Income tax benefit (expense) on above changes	**(221)**	(180)	**(630)**	(304)
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	**(7)**	(9)	**64**	2
Income tax benefit (expense) on above changes	**2**	4	**(19)**	(1)
Change in retirement plan liabilities adjustment	**127**	(69)	**218**	(56)
Income tax benefit (expense) on above changes	**(41)**	2	**(71)**	(1)
Other comprehensive income (loss)	**12,488**	(5,750)	**16,961**	(14,368)
Comprehensive income (loss)	**12,473**	(30,455)	**13,658**	(52,199)
Comprehensive loss attributable to noncontrolling interest	**(445)**	(410)	**(1,119)**	(446)
Comprehensive income (loss) attributable to AIG	**$ 12,918**	$ (30,045)	**$ 14,777**	$ (51,753)

See Accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Equity

Nine Months Ended
September 30, 2009

	Preferred Stock				Common	Treasury	Additional Paid-in	Accumulated
(in millions) (Unaudited)	Series E	Series F	Series C	Series D	Stock	Stock	Capital	Deficit
Balance, beginning of year, net of tax	$ -	$ -	$ -	$ 40,000	$ 368	$ (8,450)	$ 39,488	$ (12,368)
Series C issuance	-	-	23,000	-	-	-	(23,000)	-
Series D exchange for Series E	41,605	-	-	(40,000)	-	-	(1,605)	-
Series F drawdown	-	3,206	-	-	-	-	-	-
Series F commitment fee	-	(165)	-	-	-	-	-	-
Common stock issued under stock plans	-	-	-	-	-	177	(177)	-
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	-	-	-	11,826
Net loss[(a)]	-	-	-	-	-	-	-	(2,076)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	-
Unrealized appreciation (depreciation) of investments[(b)]	-	-	-	-	-	-	-	-
Net changes in foreign currency translation adjustments	-	-	-	-	-	-	-	-
Net gains (losses) on cash flow hedges	-	-	-	-	-	-	-	-
Net actuarial gain	-	-	-	-	-	-	-	-
Contributions from noncontrolling interest	-	-	-	-	-	-	-	-
Distributions to noncontrolling interest	-	-	-	-	-	-	-	-
Deferred tax asset (liability)	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	(42)	-
Balance, end of period, net of tax	$ 41,605	$ 3,041	$ 23,000	$ -	$ 368	$ (8,273)	$ 14,664	$ (2,618)

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Consolidated Statement of Equity *(Continued)*

Nine Months Ended September 30, 2009

	Accumulated Other Comprehensive Income (Loss)								
(in millions) (Unaudited)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (losses) Arising from Cash Flow Hedging Activities	Retirement Plan Liabilities Adjustment	Total	Total AIG Share-holders' Equity	Non-controlling Interest	Total Equity
Balance, beginning of year, net of tax	$ (599)	$ (3,853)	$ (187)	$ (191)	$ (1,498)	$ (6,328)	$ 52,710	$ 8,095	$ 60,805
Series C issuance	-	-	-	-	-	-	-	-	
Series D exchange for Series E	-	-	-	-	-	-	-	-	
Series F drawdown	-	-	-	-	-	-	3,206	-	3,206
Series F commitment fee	-	-	-	-	-	-	(165)	-	(165)
Common stock issued under stock plans	-	-	-	-	-	-	-	-	
Cumulative effect of change in accounting principle, net of tax	(2,537)	(6,811)	-	-	-	(9,348)	2,478	-	2,478
Net loss[(a)]	-	-	-	-	-	-	(2,076)	(1,479)	(3,555)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(3,332)	(3,332)
Unrealized appreciation (depreciation) of investments[(b)]	1,869	23,511	-	-	-	25,380	25,380	239	25,619
Net changes in foreign currency translation adjustments	-	-	1,282	-	-	1,282	1,282	121	1,403
Net gains (losses) on cash flow hedges	-	-	-	64	-	64	64	-	64
Net actuarial gain	-	-	-	-	218	218	218	-	218
Contributions from noncontrolling interest	-	-	-	-	-	-	-	454	454
Distributions to noncontrolling interest	-	-	-	-	-	-	-	(344)	(344)
Deferred tax asset (liability)	(671)	(8,952)	(630)	(19)	(71)	(10,343)	(10,343)	-	(10,343)
Other	-	-	-	-	-	-	(42)	71	29
Balance, end of period, net of tax	$ (1,938)	$ 3,895	$ 465	$ (146)	$ (1,351)	$ 925	$ 72,712	$ 3,825	$ 76,537

(a) *A net gain of $252 million was recognized in the nine-month period ended September 30, 2009 associated with redeemable noncontrolling interests (not reflected above).*

(b) *Net of reclassification adjustments.*

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc., and Subsidiaries

Consolidated Statement of Cash Flows

Nine Months Ended September 30, *(in millions) (unaudited)*	**2009**	2008
Summary:		
Net cash provided by operating activities	**$ 11,974**	$ 888
Net cash provided by (used in) investing activities	**9,149**	(7,946)
Net cash provided by (used in) financing activities	**(25,003)**	23,339
Effect of exchange rate changes on cash	**195**	5
Change in cash	**(3,685)**	16,286
Cash at beginning of period	**8,642**	2,284
Cash at end of period	**$ 4,957**	$ 18,570
Cash flows from operating activities:		
Net loss	**$ (3,303)**	$ (37,831)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Unrealized market valuation (gains) losses on AIGFP super senior credit default swap portfolio	**(1,143)**	21,726
Net (gains) losses on sales of securities available for sale and other assets	**(1,431)**	2
Net (gains) losses on sales of divested businesses	**1,201**	-
Foreign exchange transaction (gains) losses	**673**	(1,409)
Net unrealized (gains) losses on non-AIGFP derivatives and other assets and liabilities	**(7,659)**	5,779
Equity in (income) loss from equity method investments, net of dividends or distributions	**1,727**	2,000
Amortization of deferred policy acquisition costs	**9,076**	10,645
Depreciation and other amortization	**2,182**	2,727
Provision for mortgage, other loans and finance receivables	**2,038**	955
Other-than-temporary impairments	**6,756**	32,246
Impairments of goodwill and other assets	**2,197**	632
Amortization of costs and accrued interest and fees related to FRBNY credit facility	**4,044**	802
Changes in operating assets and liabilities:		
General and life insurance reserves	**5,677**	14,834
Premiums and insurance balances receivable and payable net	**1,552**	(396)
Reinsurance assets	**795**	(863)
Capitalization of deferred policy acquisition costs	**(9,482)**	(12,710)
Investment income due and accrued	**(165)**	(398)
Funds held under reinsurance treaties	**(514)**	(49)
Other policyholder funds	**820**	1,206
Current and deferred income taxes net	**(1,934)**	(10,935)
Commissions, expenses and taxes payable	**(612)**	155
Other assets and liabilities net	**(2,392)**	(1,973)
Trade receivables and payables net	**340**	(7,297)
Trading securities	**293**	1,729
Net unrealized (gains) losses on swaps, options and forward transactions (net of cash collateral)	**3,312**	(28,191)
Securities purchased under agreements to resell	**1,779**	8,831
Securities sold under agreements to repurchase	**(2,012)**	41
Securities and spot commodities sold but not yet purchased	**(1,657)**	(2,154)
Finance receivables and other loans held for sale originations and purchases	**(64)**	(346)
Sales of finance receivables and other loans held for sale	**93**	545
Other, net	**(213)**	585

Total adjustments	**15,277**	38,719
Net cash provided by operating activities	**$ 11,974**	$ 888

See Accompanying Notes to Consolidated Financial Statements.

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Consolidated Statement of Cash Flows *(Continued)*

Nine Months Ended September 30, *(in millions) (unaudited)*	**2009**	**2008**
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of fixed maturity securities available for sale and hybrid investments	**$ 37,883**	$ 51,828
Maturities of fixed maturity securities available for sale and hybrid investments	**15,158**	13,756
Sales of equity securities available for sale	**3,856**	8,117
Maturities of fixed maturity securities held to maturity	**-**	126
Sales of trading securities	**13,911**	19,348
Sales of flight equipment	**172**	430
Sales or distributions of other invested assets	**9,855**	11,840
Sales of divested businesses, net	**4,658**	-
Principal payments received on mortgage and other loans receivable	**5,375**	4,809
Principal payments received on and sales of finance receivables held for investment	**9,789**	9,731
Purchases of fixed maturity securities available for sale and hybrid investments	**(56,413)**	(75,938)
Purchases of equity securities available for sale	**(2,869)**	(7,701)
Purchases of fixed maturity securities held to maturity	**-**	(88)
Purchases of trading securities	**(6,055)**	(20,488)
Purchases of flight equipment (including progress payments)	**(2,366)**	(3,200)
Purchases of other invested assets	**(6,938)**	(16,030)
Mortgage and other loans receivable issued	**(3,656)**	(4,939)
Finance receivables held for investment originations and purchases	**(4,669)**	(11,697)
Change in securities lending invested collateral	**2,481**	20,245
Net additions to real estate, fixed assets, and other assets	**(402)**	(1,034)
Net change in short-term investments	**(10,253)**	(6,116)
Net change in non-AIGFP derivative assets and liabilities	**(399)**	(459)
Other, net	**31**	(486)
Net cash provided by (used in) investing activities	**$ 9,149**	$ (7,946)
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**$ 26,135**	$ 46,446
Policyholder contract withdrawals	**(34,248)**	(42,381)
Change in other deposits	**548**	747
Change in commercial paper and other short-term debt	**(613)**	(7,540)
Change in Federal Reserve Bank of New York Commercial Paper Funding Facility borrowings	**(5,735)**	-
Federal Reserve Bank of New York credit facility borrowings	**20,000**	61,000
Federal Reserve Bank of New York credit facility repayments	**(21,000)**	-
Issuance of other long-term debt	**4,059**	111,558
Repayments on other long-term debt	**(15,604)**	(114,051)
Change in securities lending payable	**(1,835)**	(39,127)
Distributions to noncontrolling interest	**(344)**	(372)
Contributions from noncontrolling interest	**454**	1,396
Drawdown on the Department of the Treasury Commitment	**3,206**	-
Issuance of common stock	**-**	7,343
Issuance from treasury stock	**-**	16
Payments advanced to purchase shares	**-**	(1,000)
Cash dividends paid to shareholders	**-**	(1,629)
Other, net	**(26)**	933
Net cash provided by (used in) financing activities	**$ (25,003)**	$ 23,339

Supplementary disclosure of cash flow information:				
Cash (paid) received during the period for:				
Interest	**$**	**(4,337)**	$	(4,953)
Taxes	**$**	**(19)**	$	(562)
Non-cash financing/investing activities:				
Consideration received for preferred stock not yet issued	**$**	**-**	$	23,000
Interest credited to policyholder accounts included in financing activities	**$**	**10,382**	$	5,737
Treasury stock acquired using payments advanced to purchase shares	**$**	**-**	$	1,912
Present value of future contract adjustment payments related to issuance of equity units	**$**	**-**	$	431
Long-term debt reduction due to deconsolidations	**$**	**1,248**	$	-
Debt assumed on acquisitions and warehoused investments	**$**	**-**	$	153

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Summary of Significant Accounting Policies

Basis of Presentation

These unaudited condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States (GAAP) for complete consolidated financial statements and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Form 8-K filed on June 29, 2009 (the 2008 Financial Statements).

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. AIG evaluated the need to disclose events that occurred subsequent to the balance sheet date through November 6, 2009, the date the financial statements were issued. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

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

AIG's ability to continue as a going concern,

liability for general insurance unpaid claims and claims adjustment expenses,

future policy benefits for life and accident and health contracts,

recoverability of deferred policy acquisition costs (DAC),

estimated gross profits for investment-oriented products,

the allowance for finance receivable losses,

flight equipment recoverability,

other-than-temporary impairments,

goodwill impairment,

liabilities for legal contingencies,

estimates with respect to income taxes, and

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

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

Revisions and Reclassifications

As of September 30, 2009, AIG reclassified the paid-in capital in excess of par value, net of issuance costs, related to its Series C, D, E, and F Preferred Stock from Additional paid-in capital to each of the respective Series C, D, E, and F Preferred Stock captions in the Consolidated Balance Sheet. Prior period amounts were revised to conform to the current period presentation.

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Certain other reclassifications and format changes have been made to prior period amounts to conform to the current period presentation.

Going Concern Considerations

In the 2008 Financial Statements, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG's businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months. On March 2, 2009, the United States government issued the following statement referring to the March 2009 agreements in principle and other transactions they expected to be undertaken with AIG (many of which were subsequently taken) to strengthen AIG's capital position, enhance its liquidity, reduce its borrowing costs and facilitate its asset disposition program.

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

Liquidity of Parent and Subsidiaries

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

Historically, AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG's current financial situation, many of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG. As a result, AIG has been dependent on the facility (the FRBNY Facility) provided by the Federal Reserve Bank of New York (FRBNY) under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Agreement), between AIG and the FRBNY; the FRBNY's Commercial Paper Funding Facility (CPFF); and other transactions with the FRBNY and the United States Department of the Treasury (the Department of the Treasury) as its primary sources of liquidity. Primary uses of cash flow are debt service and subsidiary funding.

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

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

In the first nine months of 2009, AIG took a number of steps to execute its plans to provide stability to its businesses and provide for the timely repayment of the FRBNY Facility.

Transactions with the FRBNY

FRBNY Credit Agreement Amendment

On April 17, 2009, AIG and the FRBNY entered into an Amendment No. 3 to the FRBNY Credit Agreement. The FRBNY Credit Agreement was amended, among other things, to remove the minimum 3.5 percent LIBOR borrowing rate floor.

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AIA Purchase Agreement

On June 25, 2009, AIG and American International Reinsurance Company, Limited (AIRCO) entered into a Purchase Agreement (the AIA Purchase Agreement) with the FRBNY pursuant to which, among other things, (1) AIRCO will transfer (or cause to be transferred) 100 percent of the common stock of American International Assurance Company, Limited (AIA) to a wholly owned subsidiary of a newly-formed Delaware limited liability company, AIA Aurora LLC (AIA LLC), (2) AIRCO and AIG will retain 100 percent of the common interests of AIA LLC and (3) the FRBNY will receive 100 percent of the preferred interests of AIA LLC. Pursuant to the AIA Purchase Agreement, upon issuance of the preferred interests in AIA LLC to the FRBNY, there will be a reduction in the outstanding balance of the FRBNY Facility and the maximum amount available to be borrowed thereunder equal to the liquidation preference of the preferred equity, which will be $16 billion, provided the maximum amount available under the FRBNY Facility will not be less than $25 billion as a result of such reduction.

The common interests will entitle AIG and AIRCO to 100 percent of the voting power of AIA LLC, including the right to appoint the entire board of managers of AIA LLC. The preferred interests will entitle the FRBNY to veto rights over certain significant actions by AIA LLC and its subsidiaries and the right, subject to certain restrictions, to require AIA LLC to use its best efforts to take certain actions, including an initial public offering of the company or a sale of the company. The preferred interests received by the FRBNY will have a liquidation preference of $16 billion and will accrue a return of 5 percent per year until September 22, 2013 and thereafter 9 percent per year. Upon a liquidation or sale of AIA LLC, after payment is made for the liquidation preference and accrued returns on the preferred interests and the initial value relating to the common interests, AIG is entitled to 99 percent of the remaining proceeds and the FRBNY is entitled to 1 percent.

The transactions contemplated by the AIA Purchase Agreement are subject to certain conditions, including regulatory approvals, the closing of the transactions contemplated by the ALICO Purchase Agreement (described below) and certain other conditions and are expected to be consummated in the fourth quarter.

ALICO Purchase Agreement

On June 25, 2009, AIG entered into a Purchase Agreement (the ALICO Purchase Agreement) with the FRBNY pursuant to which, among other things, (1) AIG will transfer (or cause to be transferred) 100 percent of the common stock of American Life Insurance Company (ALICO) to a newly formed Delaware limited liability company, ALICO Holdings LLC (ALICO LLC), (2) AIG will retain 100 percent of the common interests of ALICO LLC and (3) the FRBNY will receive 100 percent of the preferred interests of ALICO LLC. Pursuant to the ALICO Purchase Agreement, upon issuance of the preferred interests in ALICO LLC to be received by the FRBNY, there will be a reduction in the outstanding balance of the FRBNY Facility and the maximum amount available to be borrowed thereunder equal to the liquidation preference of the preferred equity, which will be $9 billion, provided the maximum amount available under the FRBNY Facility will not be less than $25 billion as a result of such reduction.

The common interests will entitle AIG to 100 percent of the voting power of ALICO LLC, including the right to appoint the entire board of managers of ALICO LLC. The preferred interests will entitle the FRBNY to veto rights over certain significant actions by ALICO LLC and its subsidiaries and the right, subject to certain restrictions, to require ALICO LLC to use its best efforts to take certain actions, including an initial public offering of the company or a sale of the company. The preferred interests received by the FRBNY will have a liquidation preference of $9 billion and will accrue a return of 5 percent per year until September 22, 2013 and thereafter 9 percent per year. Upon a liquidation or sale of ALICO LLC, after payment is made for the liquidation preference and accrued returns on the preferred interests and the initial value of the common interests, AIG is entitled to 95 percent of the remaining proceeds and the FRBNY is entitled to 5 percent.

The transactions contemplated by the ALICO Purchase Agreement are subject to certain conditions, including regulatory approvals, the closing of the transactions contemplated by the AIA Purchase Agreement (described above) and certain other conditions and are expected to be consummated in the fourth quarter.

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Amortization of Prepaid Commitment Asset

Any permanent reduction in the FRBNY Facility will result in accelerated amortization of a portion of the prepaid commitment asset. Therefore, AIG anticipates that the consummation of each of the AIA Purchase Agreement and the ALICO Purchase Agreement will result in accelerated amortization of a portion of the prepaid commitment asset at the time that the senior interests are transferred to the FRBNY, currently expected to occur in the fourth quarter of 2009. Acceleration of the amortization will result in a pre-tax charge to earnings expected to aggregate approximately $5 billion.

Life Insurance Securitizations

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

Department of Treasury Commitment

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

Sales of Businesses and Asset Dispositions

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

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

During the first nine months of 2009 and through October 30, 2009, AIG entered into agreements to sell or completed the sale of operations and assets, excluding AIGFP assets, that had aggregate assets and liabilities with carrying values of $86.3 billion and $69.2 billion, respectively, at September 30, 2009 or the date of sale or in the case of Transatlantic Holdings, Inc. (Transatlantic), deconsolidation. These transactions are expected to generate approximately $5.6 billion of aggregate net cash proceeds that will be available to repay outstanding borrowings and reduce the amount of the FRBNY Facility, after taking into account taxes, transaction expenses, settlement of intercompany loan facilities, and capital required to be retained for regulatory or ratings purposes. Gains and losses recorded in connection with the dispositions of businesses include estimates that are subject to subsequent

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adjustment. Based on the transactions thus far, AIG does not believe that such adjustments will be material to future results of operations or cash flows.

American General Finance, Inc. (AGF) Portfolio Sales and Securitization Transaction

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

Held for Sale Presentation

At September 30, 2009, AIG's significant businesses included in the asset disposition plan did not meet the accounting criteria to be classified as held for sale. AIG continues to evaluate the status of its asset sales with respect to these criteria. See Note 14 to the Consolidated Financial Statements.

Management's Assessment and Conclusion

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

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

- the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies, including in particular, the uncertainty of estimates relating to the derivative transactions of AIG Financial Products Corp. and AIG Trading Group Inc. and their respective subsidiaries (collectively, AIGFP), such as estimates of both the number of counterparties who may elect to terminate under contractual termination provisions and the amount that would be required to be paid in the event of a downgrade;

- the ability of AIG to complete the transactions contemplated by the AIA Purchase Agreement and the ALICO Purchase Agreement;

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

- the potential for declines in bond and equity markets;

- future sales of significant subsidiaries;

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

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

AIG's highly leveraged capital structure;

the effect of the provisions of the TARP Standards for Compensation and Corporate Governance and the Determination Memorandum issued by the Office of the Special Master for TARP Executive Compensation with respect to proposed compensation payments and structures thereunder on AIG's ability to retain and motivate key employees or hire new employees;

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

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- the potential that AIG will be unable to complete the proposed life insurance securitizations and, even if completed, that these proposed transactions with the FRBNY do not achieve desired objectives; and

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

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

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

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

Out of Period Adjustments

In the three months ended September 30, 2009, AIG recorded out of period adjustments related to prior periods which increased AIG's Loss before income tax benefit by $425 million (primarily Other realized capital gains (losses)) and decreased Net income attributable to AIG by $188 million. In the nine months ended September 30, 2009, AIG recorded out of period adjustments relating to prior years which decreased the Loss before income tax benefit by $101 million and decreased Net loss attributable to AIG by $361 million.

Had all adjustments been recorded in their appropriate periods, Net income (loss) attributable to AIG for the three-month periods ended June 30, 2009 and March 31, 2009 would have decreased by $322 million and increased by $234 million, respectively. Further, AIG currently believes that the effect on full year 2009 results will be immaterial as well. The effect on comparable 2008 periods was insignificant.

While these adjustments were noteworthy for the current quarter, after evaluating the quantitative and qualitative aspects of these corrections, AIG concluded that its prior period financial statements were not materially misstated and, therefore, no restatement was required.

Recent Accounting Standards

Accounting Changes

AIG adopted the following accounting standards during the first nine months of 2009:

Business Combinations

In December 2007, the Financial Accounting Standards Board (FASB) issued an accounting standard that changed the accounting for business combinations in a number of ways, including broadening the transactions or events that are considered business combinations; requiring an acquirer to recognize 100 percent of the fair value of certain assets acquired, liabilities assumed, and noncontrolling (i.e., minority) interests; and recognizing contingent consideration

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arrangements at their acquisition-date fair values with subsequent changes in fair value generally reflected in earnings, among other changes.

AIG adopted the new business combination standard for business combinations for which the acquisition date is on or after January 1, 2009. The adoption of the new standard did not have a material effect on AIG's consolidated financial position, results of operations or cash flows at and for the three and nine months ended September 30, 2009, but will affect the future accounting for business combinations, if any, as well as goodwill impairment assessments.

Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued an accounting standard that requires noncontrolling (i.e., minority) interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheet as a separate component of equity, or in the mezzanine section of the balance sheet (between liabilities and equity) if such interests do not qualify for "permanent equity" classification. The new standard also specifies the accounting treatment for subsequent acquisitions and sales of noncontrolling interests and how noncontrolling interests should be presented in the consolidated statement of income (loss). The noncontrolling interests' share of subsidiary income (loss) should be reported as a part of consolidated net income (loss) with disclosure of the attribution of consolidated net income (loss) to the controlling and noncontrolling interests on the face of the consolidated statement of income (loss).

AIG adopted the new standard on January 1, 2009 and applied it prospectively, except that the consolidated statement of income (loss) for the three and nine months ended September 30, 2008 have been retrospectively recast to include net income (loss) attributable to both the controlling and noncontrolling interests. Of the $10.0 billion minority interest on the consolidated balance sheet at December 31, 2008, $1.9 billion was reclassified from minority interest liability to Redeemable noncontrolling interest in partially owned consolidated subsidiaries and $8.1 billion was reclassified to a separate component of total equity entitled Noncontrolling interest. For the nine months ended September 30, 2009, the Noncontrolling interest balance declined by $4.3 billion, of which $1.4 billion related to the deconsolidation of Transatlantic in the second quarter of 2009 following the public offering of 29.9 million shares of Transatlantic common stock, after which AIG retained 13.9 percent of Transatlantic common stock outstanding. AIG also restructured certain relationships within the Institutional Asset Management business in the second quarter of 2009, resulting in a decline in goodwill of $476 million and noncontrolling interest of $1.9 billion due to deconsolidation of certain entities.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued an accounting standard that requires enhanced disclosures about (a) how and why AIG uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect AIG's consolidated financial condition, results of operations, and cash flows. AIG adopted the new standard on January 1, 2009. See Note 7 herein for related disclosures.

Subsequent Events

In May 2009, the FASB issued an accounting standard that requires disclosure of the date through which a company evaluated the need to disclose events that occurred subsequent to the balance sheet date and whether that date represents the date the financial statements were issued or were available to be issued. AIG adopted the new standard for the period ended June 30, 2009. The adoption of the new standard did not affect AIG's consolidated financial condition, results of operations or cash flows.

Accounting for Transfers of Financial Assets and Repurchase Financing Transactions

In February 2008, the FASB issued an accounting standard that requires an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with or in contemplation of the initial transfer to be evaluated as a linked transaction unless certain criteria are met. AIG adopted the new standard for new transactions

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entered into from that date forward. The adoption of the new standard did not have a material effect on AIG's consolidated financial condition, results of operations or cash flows.

Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock

In June 2008, the FASB issued an accounting standard that addresses how to determine whether a financial instrument (or embedded feature) is indexed to an entity's own stock and therefore may not be accounted for as a derivative instrument. AIG adopted the new standard on January 1, 2009, which resulted in a $15 million cumulative effect adjustment to opening Accumulated deficit and a $91 million reduction in Additional paid-in capital.

Interim Disclosures about Fair Value of Financial Instruments

In April 2009, the FASB issued an accounting standard that requires companies to disclose in interim financial statements information about the fair value of financial instruments (including methods and significant assumptions used). The standard also requires the disclosures of summarized financial information for interim reporting periods. AIG adopted the new standard on April 1, 2009. See Note 4, Fair Value Measurements, for these disclosures.

Recognition and Presentation of Other-Than-Temporary Impairments

In April 2009, the FASB issued an accounting standard that requires a company to recognize the credit component of an other-than-temporary impairment of a fixed maturity security in earnings and the non-credit component in accumulated other comprehensive income when the company does not intend to sell the security or it is more likely than not that the company will not be required to sell the security prior to recovery. The standard also changed the threshold for determining when an other-than-temporary impairment has occurred on a fixed maturity security with respect to intent and ability to hold until recovery. The standard does not change the recognition of other-than-temporary impairment for equity securities. The standard requires additional disclosures in interim and annual reporting periods for fixed maturity and equity securities. See Note 5, Investments, for the expanded disclosures.

AIG adopted the new standard on April 1, 2009 and recorded an after-tax cumulative effect adjustment to increase AIG shareholders' equity by $2.5 billion as of April 1, 2009, consisting of a decrease in Accumulated deficit of $11.8 billion and an increase to Accumulated other comprehensive loss of $9.3 billion, net of tax. The net increase in AIG's shareholders' equity was due to a reversal of a portion of the deferred tax asset valuation allowance for certain previous non-credit impairment charges directly attributable to the change in accounting principle (see Note 12 herein). The cumulative effect adjustment resulted in an increase of approximately $16 billion in the amortized cost of fixed maturity securities, which has the effect of significantly reducing the accretion of investment income over the remaining life of the underlying securities, beginning in the second quarter of 2009. The effect of the reduced investment income will be offset, in part, by a decrease in the amortization of deferred policy acquisition costs (DAC) and sales inducements assets (SIA).

The new standard is expected to reduce the level of other-than-temporary impairment charges recorded in earnings for fixed maturity securities due to the following required changes in AIG's accounting policy for other-than-temporary impairments (see Note 5 for a more detailed discussion of the changes in policy):

- Impairment charges for non-credit (e.g., severity) losses are no longer recognized;

- The amortized cost basis of credit impaired securities will be written down through a charge to earnings to the present value of expected cash flows, rather than to fair value; and

For fixed maturity securities that are not deemed to be credit-impaired, AIG is no longer required to assert that it has the intent and ability to hold such securities to recovery to avoid an other-than-temporary impairment charge. Instead, an impairment charge through earnings is required only in situations where AIG has the intent to sell the fixed maturity security or it is more likely than not that AIG will be required to sell the security prior to recovery.

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The components of the change in AIG shareholders' equity at April 1, 2009 due to the adoption of the new accounting standard for other-than-temporary impairments were as follows:

(in billions)	(Increase) Decrease to Accumulated Deficit	(Increase) Decrease to Accumulated Other Comprehensive Loss	Net Increase in AIG Shareholders' Equity
Net effect of the increase in amortized cost of available for sale fixed maturity securities	$ 16.1	$ (16.1)	$ -
Net effect of related DAC, SIA and other insurance balances	(1.8)	1.8	-
Net effect on deferred income tax assets	(2.5)	5.0	2.5
Net increase in AIG shareholders' equity	$ 11.8	$ (9.3)	$ 2.5

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly

In April 2009, the FASB issued an accounting standard that provides guidance for estimating the fair value of assets and liabilities when the volume and level of activity for an asset or liability have significantly decreased and for identifying circumstances that indicate a transaction is not orderly. The new standard also requires extensive additional fair value disclosures. The adoption of the new standard on April 1, 2009, did not have a material effect on AIG's consolidated financial condition, results of operations or cash flows. See Note 4, Fair Value Measurements for the enhanced disclosures.

Future Application of Accounting Standards

Employers' Disclosures about Postretirement Benefit Plan Assets

In December 2008, the FASB issued an accounting standard that requires more detailed disclosures about an employer's plan assets, including the employer's investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair values of plan assets. The new standard is effective for fiscal years ending after December 15, 2009. The adoption of the new standard will have no effect on AIG's consolidated financial condition, results of operations or cash flows.

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued an accounting standard addressing transfers of financial assets that removes the concept of a qualifying special-purpose entity (QSPE) from the FASB Accounting Standards Codification and removes the exception from applying the consolidation rules to QSPEs. The new standard is effective for interim and annual periods beginning on January 1, 2010 for AIG. Earlier application is prohibited. AIG is assessing the effect of adopting the new standard on its consolidated financial condition, results of operations and cash flows.

Consolidation of Variable Interest Entities

In June 2009, the FASB issued an accounting standard that amends the rules addressing consolidation of variable interest entities with an approach focused on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly affect the entity's economic performance and has (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The new standard also requires enhanced financial reporting by enterprises involved with variable interest entities. The new standard is effective for interim and annual periods beginning on January 1, 2010 for AIG. Earlier application is prohibited. AIG is assessing the effect of adopting the new standard on its consolidated financial condition, results of operations and cash flows.

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Measuring Liabilities at Fair Value

In August 2009, the FASB issued an accounting standards update to clarify how the fair value measurement principles should be applied to measuring liabilities carried at fair value. The update explains how to prioritize market inputs in measuring liabilities at fair value and what adjustments to market inputs are appropriate for debt obligations that are restricted from being transferred to another obligor. The update was effective beginning October 1, 2009 for AIG. AIG is assessing the effect of adopting the update on its consolidated financial condition, results of operations and cash flows.

Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

In September 2009, the FASB issued an accounting standard update that permits, as a practical expedient, a company to measure the fair value of an investment that is within the scope of the update on the basis of the net asset value per share of the investment (or its equivalent) if that value is calculated in accordance with fair value as defined by the FASB. The standard also requires enhanced disclosures. The update applies to investment companies that do not have readily determinable fair values such as certain hedge funds and private equity funds. The update is effective for interim and annual periods ending after December 15, 2009. AIG does not expect that the adoption of the accounting standard update will have a material effect on its consolidated financial condition, results of operations or cash flows.

2. Restructuring

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

Successful execution of the restructuring plan involves significant separation activities. Accordingly, in 2008 AIG established retention programs for its key employees to maintain ongoing business operations and to facilitate the successful execution of the restructuring plan, although some payments have been delayed. Additionally, given the market disruption in the first quarter of 2008, AIGFP established a retention plan for its employees to manage and unwind its complex businesses. Other major activities include the separation of shared services, corporate functions, infrastructure and assets among business units.

In connection with its restructuring and separation activities, AIG expects to incur significant expenses, including legal, banking, accounting, consulting and other professional fees. In addition, AIG is contractually obligated to reimburse or advance certain professional fees and other expenses incurred by the FRBNY and the trustees of the AIG Credit Facility Trust, a trust established for the sole benefit of the United States Treasury (Trust).

Based on AIG's announced plans, AIG has made estimates of these expenses, although for some restructuring and separation activities estimates cannot be reasonably made due to the evolving nature of the plans and the uncertain timing of the transactions involved. Future reimbursement or advancement payments to the FRBNY and the trustees cannot reasonably be estimated by AIG. Even for those expenses that have been estimated, actual expenses will vary depending on the identity of the ultimate purchasers of the divested entities or counterparties to transactions, the transactions and activities that ultimately are consummated or undertaken, and the ultimate time period over which these activities occur.

For those restructuring and separation expenses that have been incurred or can be reasonably estimated, the total expenses incurred and expected to be incurred are approximately $2.6 billion at September 30, 2009, as set forth in the table below. This amount excludes expenses that could not be reasonably estimated at September 30, 2009, as well as any expenses (principally professional fees) that are expected to be capitalized. With respect to the FRBNY and the trustees of the Trust, this amount includes only actual reimbursement and advancement payments made through September 30, 2009.

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Restructuring expenses and related asset impairment and other expenses by operating segment consisted of the following:

(in millions)	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other[(a)]	Total
Three Months Ended September 30, 2009						
Restructuring expenses	$ -	$ 99	$ 54	$ 1	$ 81	$ 235
Separation expenses	60	49	4	8	15	136
Total	$ 60	$ 148	$ 58	$ 9	$ 96	$ 371
Nine Months Ended September 30, 2009						
Restructuring expenses	$ 1	$ 132	$ 155	$ 10	$ 357	$ 655
Separation expenses	133	131	86	24	47	421
Total	$ 134	$ 263	$ 241	$ 34	$ 404	$ 1,076
Cumulative amounts incurred since inception of restructuring plan	$ 218	$ 331	$ 579	$ 103	$ 654	$ 1,885
Total amounts expected to be incurred[(b)]	$ 301	$ 544	$ 695	$ 110	$ 979	$ 2,629

(a) *Primarily includes professional fees related to (i) disposition activities and (ii) AIG's capital restructuring program with the FRBNY and the Department of the Treasury.*

(b) *Includes cumulative amounts incurred and future amounts to be incurred that can be reasonably estimated at September 30, 2009.*

A rollforward of the restructuring liability, reported in Other liabilities on AIG's consolidated balance sheet, for the nine months ended September 30, 2009, the cumulative amounts incurred since inception of the restructuring plan, and the total amounts expected to be incurred are summarized as follows:

Nine Months Ended September 30, 2009 *(in millions)*	Severance Expenses	Contract Termination Expenses	Asset Write-Downs	Other Exit Expenses[(a)]	Subtotal Restructuring Expenses	Separation Expenses	Total Restructuring and Separation Expenses
Liability balance, at beginning of year	$ 77	$ 27	$ -	$ 87	$ 191	$ 284	$ 475
Additional charges	89	42	118	404	653	466	1,119
Cash payments	(75)	(24)	-	(342)	(441)	(397)	(838)
Non-cash items[(b)]	(11)	(29)	(118)	-	(158)	16	(142)
Changes in estimates	49	(2)	-	(45)	2	(45)	(43)
Liability balance, end of period	$ 129	$ 14	$ -	$ 104	$ 247	$ 324	$ 571
Cumulative amounts incurred since inception of restructuring plan	$ 227	$ 67	$ 169	$ 499	$ 962	$ 923	$ 1,885
Total amounts expected to be incurred[(c)]	$ 245	$ 109	$ 169	$ 856	$ 1,379	$ 1,250	$ 2,629

(a) *Primarily includes professional fees related to (i) disposition activities, (ii) AIG's capital restructuring program with the FRBNY and the Department of the Treasury and (iii) unwinding most of AIGFP's businesses and portfolios.*

(b) *Primarily represents asset impairment charges, foreign currency translation and reclassification adjustments.*

(c) *Includes cumulative amounts incurred and future amounts to be incurred that can be reasonably estimated at September 30, 2009.*

3. Segment Information

AIG identifies its operating segments by product line consistent with its management structure and evaluates their performance based on operating income (loss) before taxes. During the second quarter of 2009, AIG realigned its financial reporting structure to reflect the effects of its restructuring activities on how management views and manages its businesses. Consequently, beginning in the second quarter of 2009, the results for Transatlantic, Personal Lines

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(excluding the results of the Private Client Group), and Mortgage Guaranty, previously reported as part of the General Insurance operating segment, are now included in AIG's Other category. In addition, the historical results for HSB Group, Inc. (HSB) (which was sold on March 31, 2009), previously included within Commercial Insurance, are now included in AIG's Other category. Prior period amounts have been revised to conform to the current presentation. As a result of dispositions, only Mortgage Guaranty is reporting ongoing results of operations commencing in the third quarter of 2009.

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

AIG's operating segments are General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management.

AIG's results by operating segment were as follows:

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

Other	**(1,338)**	(2,712)	**(5,135)**	(4,758)
Consolidation and eliminations	**371**	464	**158**	237
Total operating income (loss)	**$ (207)**	$ (28,185)	**$ (5,256)**	$ (48,205)

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AIG's General Insurance results by major internal reporting unit were as follows:

General Insurance	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(in millions)	**2009**	**2008**	**2009**	**2008**
Total revenues:				
Commercial Insurance	**$ 5,695**	$ 5,226	**$ 16,241**	$ 17,197
Foreign General Insurance	**3,470**	3,224	**9,898**	10,991
Total	**$ 9,165**	$ 8,450	**$ 26,139**	$ 28,188
Operating income (loss):				
Commercial Insurance	**$ 582**	$ (1,052)	**$ 941**	$ 143
Foreign General Insurance	**232**	(209)	**967**	1,323
Total	**$ 814**	$ (1,261)	**$ 1,908**	$ 1,466

AIG's Life Insurance & Retirement Services results by major internal reporting unit were as follows:

Life Insurance & Retirement Services	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
(in millions)	**2009**	**2008**	**2009**	**2008**
Total revenues:				
Foreign:				
Japan and Other	**$ 5,107**	$ 2,566	**$ 12,984**	$ 11,831
Asia	**5,356**	1,812	**16,576**	10,664
Domestic:				
Domestic Life Insurance	**1,695**	(1,704)	**5,402**	813
Domestic Retirement Services	**1,034**	(7,316)	**2,072**	(9,037)
Total	**$ 13,192**	$ (4,642)	**$ 37,034**	$ 14,271
Operating income (loss):				
Foreign:				
Japan and Other	**$ 379**	$ (1,074)	**$ 551**	$ (14)
Asia	**775**	(1,419)	**2,298**	(971)
Domestic:				
Domestic Life Insurance	**71**	(3,911)	**310**	(5,786)
Domestic Retirement Services	**56**	(8,925)	**(1,945)**	(12,790)
Total	**$ 1,281**	$ (15,329)	**$ 1,214**	$ (19,561)

AIG's Financial Services results by major internal reporting unit were as follows:

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

AIG's Asset Management operations consist of a single internal reporting unit.

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4. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

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

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

Fair Value Hierarchy

Beginning January 1, 2008, assets and liabilities recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

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

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

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its

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entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. AIG's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, AIG considers factors specific to the asset or liability. Assets and liabilities measured at fair value on a recurring basis and classified as Level 3 include certain ABS, structured credit products, corporate debt, certain municipal and sovereign debt certain derivative contracts (including AIGFP's super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG's non-financial instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

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

Incorporation of Credit Risk in Fair Value Measurements

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

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

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

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

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

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

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

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Fixed Maturity Securities Trading and Available for Sale

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

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

Maiden Lane II and Maiden Lane III

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

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

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

Valuation Sensitivity: The fair values of the Maiden Lane Interests are most affected by changes in the discount rates and changes in the underlying estimated future collateral cash flow assumptions used in the valuation model.

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

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

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

September 30, 2009	**Fair Value Change**	
(in millions)	**Maiden Lane II**	**Maiden Lane III**
Discount Rates:		
200 basis point increase	$ (72)	$ (548)
200 basis point decrease	82	637
400 basis point increase	(136)	(1,020)
400 basis point decrease	175	1,382
Estimated Future Cash Flows:		
10% increase	284	814
10% decrease	(278)	(809)
20% increase	568	1,630
20% decrease	(520)	(1,595)

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

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

Equity Securities Traded in Active Markets   Trading and Available for Sale

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

Non-Traded Equity Investments   Other Invested Assets

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

Private Limited Partnerships and Hedge Fund Investments   Other Invested Assets

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

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Separate Account Assets

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

Freestanding Derivatives

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

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

Certain OTC derivatives trade in less liquid markets with limited pricing information, and the determination of fair value for these derivatives is inherently more difficult. When AIG does not have corroborating market evidence to support significant model inputs and cannot verify the model to market transactions, the transaction price is initially used as the best estimate of fair value. Accordingly, when a pricing model is used to value such an instrument, the model is adjusted so the model value at inception equals the transaction price. Subsequent to initial recognition, AIG updates valuation inputs when corroborated by evidence such as similar market transactions, third-party pricing services and/or broker or dealer quotations, or other empirical market data. When appropriate, valuations are adjusted for various factors such as liquidity, bid/offer spreads and credit considerations. Such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Embedded Policy Derivatives

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

AIGFP's Super Senior Credit Default Swap Portfolio

AIGFP values its CDS transactions written on the super senior risk layers of designated pools of debt securities or loans using internal valuation models, third-party price estimates and market indices. The principal market was determined to be the market in which super senior credit default swaps of this type and size would be transacted, or have been transacted, with the greatest volume or level of activity. AIG has determined that the principal market

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participants, therefore, would consist of other large financial institutions who participate in sophisticated over-the-counter derivatives markets. The specific valuation methodologies vary based on the nature of the referenced obligations and availability of market prices.

The valuation of the super senior credit derivatives continues to be challenging given the limitation on the availability of market observable information due to the lack of trading and price transparency in the structured finance market, particularly during and since the second half of 2007. These market conditions have increased the reliance on management estimates and judgments in arriving at an estimate of fair value for financial reporting purposes. Further, disparities in the valuation methodologies employed by market participants and the varying judgments reached by such participants when assessing volatile markets have increased the likelihood that the various parties to these instruments may arrive at significantly different estimates as to their fair values.

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

Regulatory capital portfolio: In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG expects that the counterparties in the remaining regulatory capital CDS transactions will terminate the majority of these transactions with AIGFP within the next six months, which is during the transition period of the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision (Basel II). AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the terms of the Capital Accord of the Basel Committee on Banking Supervision (Basel I) that existed through the end of 2007 and which is in the process of being replaced by Basel II. It is expected that financial institution counterparties will have transitioned from Basel I to Basel II by the end of the two-year adoption period on December 31, 2009, after which they will receive little or no additional regulatory benefit from these CDS transactions, except in a small number of specific instances. However, the Basel Committee recently announced that it has agreed to keep in place the Basel I capital floors beyond the end of 2009, although it remains to be seen how this extension will be implemented by the various European Central Banking districts. Should certain counterparties continue to receive favorable regulatory capital benefits from these transactions, those counterparties may not exercise their options to terminate the transactions in the expected time frame. In assessing the fair value of the regulatory capital CDS transactions, AIGFP also considers other market data, to the extent relevant and available. For further discussion, see Note 7 herein.

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

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

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. CDO collateral managers provided market prices for 62.5 percent of the underlying securities

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used in the valuation at September 30, 2009. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

The BET model also uses diversity scores, weighted average lives, recovery rates and discount rates.

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

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

Corporate debt/Collateralized loan obligation (CLO) portfolios: In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIGFP previously estimated the fair value of its obligations by comparing the contractual premium of each contract to the current market levels of the senior tranches of comparable credit indices, the iTraxx index for European corporate issuances and the CDX index for U.S. corporate issuances. Those indices were considered reasonable proxies for the referenced portfolios. In addition, AIGFP compared those valuations to third-party prices and made adjustments as necessary to determine the best available estimate of fair value. During the third quarter of 2009, AIGFP enhanced its valuation methodology for credit default swaps written on portfolios of investment-grade corporate debt. This new methodology uses a mathematical model that produces results that are more closely aligned with prices received from third-parties. This methodology is widely used by other market participants and uses the current market credit spreads of the names in the portfolios along with the base correlations implied by the current market prices of comparable tranches of the relevant market traded credit indices as inputs. Two transactions, representing two percent of the total notional amount of the corporate arbitrage transactions, are valued using third party quotes given their unique attributes.

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

Policyholder Contract Deposits

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

- Current policyholder account values and related surrender charges;
- The present value of estimated future cash inflows (policy fees) and outflows (benefits and maintenance expenses) associated with the product using risk neutral valuations, incorporating expectations about policyholder behavior, market returns and other factors; and
- A risk margin that market participants would require for a market return and the uncertainty inherent in the model inputs.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

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

Other long-term debt

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

(in millions)	Level 1	Level 2	Level 3	Counterparty Netting[(a)]	Cash Collateral[(b)]	Total
At September 30, 2009						
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 303	$ 4,997	$ -	$ -	$ -	$ 5,300
Obligations of states, municipalities and political subdivisions	180	53,503	875	-	-	54,558
Non-U.S. governments	325	78,019	672	-	-	79,016
Corporate debt	7	188,454	5,839	-	-	194,300
Residential mortgage-backed securities (RMBS)	-	21,723	6,463	-	-	28,186
Commercial mortgage-backed securities (CMBS)	-	9,148	3,445	-	-	12,593
Collateralized Debt Obligations/Asset Backed Securities (CDO/ABS)	-	1,839	4,313	-	-	6,152
Total bonds available for sale	815	357,683	21,607	-	-	380,105
Bond trading securities:						
U.S. government and government sponsored entities	337	6,188	15	-	-	6,540
Obligations of states, municipalities and political subdivisions	-	370	-	-	-	370
Non-U.S. governments	10	1,571	56	-	-	1,637
Corporate debt	-	5,879	195	-	-	6,074

RMBS	**-**	**3,737**	**3**	**-**	**-**	**3,740**
CMBS	**-**	**1,900**	**165**	**-**	**-**	**2,065**
CDO/ABS	**-**	**4,401**	**6,605**	**-**	**-**	**11,006**
Total bond trading securities	**347**	**24,046**	**7,039**	**-**	**-**	**31,432**
Securities lending invested collateral:[c]						
Corporate debt	**-**	**152**	**72**	**-**	**-**	**224**
RMBS	**-**	**256**	**-**	**-**	**-**	**256**
CMBS	**-**	**74**	**-**	**-**	**-**	**74**
CDO/ABS	**-**	**65**	**86**	**-**		