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

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

Form 10-Q

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

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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American International Group, Inc. and Subsidiaries

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American International Group, Inc. and Subsidiaries

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

Consolidated Balance Sheet

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

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

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Income

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

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

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income (Loss)

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

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Cash Flows

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

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

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Equity

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

* *See Notes 1 and 12.*

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Basis of Presentation and Recent Events

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

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

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. Interim period operating results may not be indicative of the operating results for a full year. AIG evaluated the need to recognize or disclose events that occurred subsequent to the balance sheet date. All material intercompany accounts and transactions have been eliminated.

Use of Estimates

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

- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- recoverability of assets, including deferred policy acquisition costs (DAC) and flight equipment;
- estimated gross profits for investment-oriented products;
- impairment charges, including other-than-temporary impairments;
- liabilities for legal contingencies;
- estimates with respect to income taxes, including recoverability of deferred tax assets;
- fair value measurements of certain financial assets and liabilities, including credit default swaps (CDS) and AIG's economic interest in Maiden Lane II LLC (ML II) and equity interest in Maiden Lane III LLC (ML III) (together, the Maiden Lane Interests); and

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Reclassifications

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

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

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

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

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

Recent Events

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

Recapitalization

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

Repayment and Termination of the FRBNY Credit Facility

At the Closing, AIG repaid to the FRBNY approximately $21 billion in cash, representing complete repayment of all amounts owed under the FRBNY Credit Facility, and the FRBNY Credit Facility was terminated. The funds for the repayment came from the net cash proceeds from AIG's sale of 67 percent of the ordinary shares of AIA Group Limited (AIA) in its initial public offering and from AIG's sale of American Life Insurance Company (ALICO). These funds were loaned to AIG, in the form of secured limited recourse debt (the SPV Intercompany Loans), from the special purpose vehicles that held the proceeds of the AIA IPO and the ALICO sale (the AIA SPV and the ALICO SPV, respectively, and collectively, the SPVs, and such loans, the SPV Intercompany Loans). The SPV Intercompany Loans are secured by pledges and any proceeds received from the sale by AIG and certain of its subsidiaries of, among other collateral, all or part of their equity interests in Nan Shan Life Insurance Company, Ltd. (Nan Shan) and International Lease Finance Corporation (ILFC and, together with Nan Shan, the Designated Entities), as well as the remaining AIA ordinary shares held by the AIA SPV. Until their

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

Repurchase and Exchange of SPV Preferred Interests

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

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

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

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

Issuance of AIG's Series G Preferred Stock

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

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

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

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

At the Closing:

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

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

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

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

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

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

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

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

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

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

AIG has the right to:

- raise up to $3 billion (and up to an additional $4 billion with the consent of the Department of the Treasury) by January 14, 2012 in a registered primary offering; and raise the greater of $2 billion and the amount of the projected deficit if the AIG Board of Directors determines, after consultation with the Department of the Treasury, that due to events affecting AIG's insurance subsidiaries, AIG Parent's reasonably projected aggregate liquidity (cash, cash equivalents and commitments of credit, but not the Series G Drawdown Right) will fall below $8 billion within 12 months of the date of such determination.

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

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Issuance of Warrants to Purchase AIG Common Stock

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

Sales of Businesses

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

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

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

Sale of MetLife Securities

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

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

Liquidity Assessment

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

- the potential for declines in bond and equity markets;

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

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- AIG's continued ability to generate cash flow from operations;
- the potential adverse effects on AIG's businesses that could result if there are further downgrades by rating agencies; and
- the potential for regulatory limitations on AIG's business in one or more countries.

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

Supplementary Disclosure of Cash Flow Information

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

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

2. Summary of Significant Accounting Policies

Recent Accounting Standards

Future Application of Accounting Standards

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

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

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the FASB issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The new standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The new standard is effective for interim and annual periods beginning on January 1, 2012 with early adoption permitted. Prospective or retrospective application is also permitted. AIG elected not to early adopt the standard and has not yet determined whether it will subsequently adopt it prospectively or retrospectively. Upon adoption, retrospective application would result in a reduction to beginning retained earnings for the earliest period presented, whereas prospective application would result in higher amortization expense being recognized in current and future periods relative to the retrospective method. The accounting standard update will result in a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts as AIG will only defer costs that are incremental and directly related to the successful acquisition of new or renewal business. AIG is currently assessing the effect of adoption of this new standard on its consolidated financial condition, results of operations and cash flows.

Accounting Standards Adopted During 2011

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

Consolidation of Investments in Separate Accounts

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

Fair Value Measurements and Disclosures

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

3. Segment Information

AIG reports the results of its operations through three reportable segments: Chartis, SunAmerica Financial Group (SunAmerica) and Financial Services. AIG evaluates performance based on pre-tax income (loss), excluding results from discontinued operations and net (gains) losses on sales of divested businesses, because AIG believes that this provides more meaningful information on how its operations are performing.

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

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

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

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

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

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

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

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

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

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4. Discontinued Operations and Held-for-Sale Classification

Discontinued Operations

AIG Star and AIG Edison Sale

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

Nan Shan Sale Agreement

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

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

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

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

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

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

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Held-for-Sale Classification

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

The following table summarizes assets and liabilities held for sale:

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

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

5. Business Combination

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

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

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

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6. Fair Value Measurements

Fair Value Measurements on a Recurring Basis

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

- trading and available for sale securities portfolios;
- certain mortgage and other loans receivable;
- derivative assets and liabilities;
- non-traded equity investments and certain private limited partnerships and certain hedge funds included in Other invested assets;
- equity interest in AIA accounted for under the fair value option;
- certain short-term investments;
- securities purchased under agreements to resell included in Short-term investments;
- securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased included in Other liabilities;
- separate account assets;
- certain policyholder contract deposits;
- certain trust deposits and deposits due to banks and other depositors included in Other liabilities;
- certain long-term debt; and
- certain hybrid financial instruments included in Other liabilities.

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

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of observable valuation inputs. AIG maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments for which no quoted prices are available have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, liquidity and general market conditions.

Fair Value Hierarchy

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values as discussed below:

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

Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for

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the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets and liabilities measured at fair value on a recurring basis and classified as Level 2 generally include certain government and agency securities, most investment-grade and high-yield corporate bonds, certain residential mortgage-backed securities (RMBS), certain commercial mortgage-backed securities (CMBS) and certain collateralized loan obligations/asset backed securities (CLO/ABS), certain listed equities, state, municipal and provincial obligations, hybrid securities, securities purchased (sold) under agreements to resell (repurchase), certain mutual fund and hedge fund investments, certain interest rate, currency and commodity derivative contracts, guaranteed investment agreements (GIAs) for the Direct Investment business, other long-term debt and physical commodities.

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

The following is a description of the valuation methodologies used for instruments carried at fair value. These methodologies are applied to assets and liabilities across the levels noted above, and it is the observability of the inputs used that determines the appropriate level in the fair value hierarchy for the respective asset or liability.

Valuation Methodologies

Incorporation of Credit Risk in Fair Value Measurements

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

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

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

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

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

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

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

Fixed Maturity Securities Trading and Available for Sale

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

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

Fixed Maturity Securities issued by Government Entities

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

Fixed Maturity Securities issued by Corporate Entities

For most debt securities issued by corporate entities, AIG obtains fair value information from third-party valuation service providers. For certain corporate debt securities, AIG obtains fair value information from brokers. For those corporate debt instruments (for example, private placements) that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

RMBS, CMBS, CDOs and other ABS

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

Maiden Lane II and Maiden Lane III

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

The fair value methodology used since inception for the Maiden Lane Interests had assumed that the underlying collateral would continue to be held and generate cash flows into the foreseeable future and did not assume a current liquidation of the assets underlying the Maiden Lane Interests. As a result of the announcement on March 31, 2011 by the FRBNY of its plan to begin selling the assets in the ML II portfolio over time through a competitive sales process, AIG modified its methodology for estimating the fair value of its interest in ML II as of March 31, 2011 to incorporate the assumption of a current liquidation. The impact of this change in methodology was an increase in fair value of $95 million as of March 31, 2011. AIG does not believe a change in

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the fair value methodology used for its interest in ML III is appropriate at this time based on current available information. Other methodologies employed or assumptions made in determining fair value for these investments could result in amounts that differ significantly from the amounts reported.

Adjustments to the fair value of AIG's interest in ML II are recorded in the Consolidated Statement of Income (Loss) in Net investment income for SunAmerica's domestic life insurance companies. Adjustments to the fair value of AIG's interest in ML III are recorded in the Consolidated Statement of Income (Loss) in Net investment income for AIG's Other operations.

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

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

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

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

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

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

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Equity Securities Traded in Active Markets   Trading and Available for Sale

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

Direct Private Equity Investments   Other Invested Assets

AIG initially estimates the fair value of direct private equity investments by reference to the transaction price. This valuation is adjusted for changes in inputs and assumptions that are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, subsequent rounds of financing, recapitalizations and other transactions across the capital structure, offerings in the equity capital markets and/or changes in financial ratios or cash flows. For equity securities that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

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

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

Separate Account Assets

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

Other Assets Measured at Fair Value

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

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

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

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Freestanding Derivatives

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

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

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

Embedded Policy Derivatives

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

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

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AIGFP's Super Senior Credit Default Swap Portfolio

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

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

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

Regulatory capital portfolio: In the case of credit default swaps written to facilitate regulatory capital relief, AIG estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG continues to reassess the expected maturity of the portfolio. AIGFP has not been required to make any payments as part of terminations initiated by counterparties. The regulatory benefit of these transactions for AIGFP's financial institution counterparties is generally derived from the capital regulations promulgated by the Basel Committee on Banking Supervision, known as Basel I. In December 2010, the Basel Committee on Banking Supervision finalized a new framework for international capital and liquidity standards known as Basel III, which, when fully implemented, may reduce or eliminate the regulatory benefits to certain counterparties and thus may impact the period of time that such counterparties are expected to hold the positions. In assessing the fair value of the regulatory capital CDS transactions, AIG also considers other market data to the extent relevant and available. For further discussion, see Note 10 herein.

Multi-sector CDO portfolios: AIG uses a modified version of the Binomial Expansion Technique (BET) model to value AIGFP's credit default swap portfolio written on super senior tranches of multi-sector collateralized debt obligations (CDOs) of ABS. The BET model was developed in 1996 by a major rating agency to generate expected loss estimates for CDO tranches and derive a credit rating for those tranches, and remains widely used.

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

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Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. CDO collateral managers provided market prices for 58.9 percent of the underlying securities used in the valuation at March 31, 2011. When a price for an individual security is not provided by a CDO collateral manager, AIG derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

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

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

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

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

Policyholder Contract Deposits

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

- Current policyholder account values and related surrender charges;

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

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

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

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Other Long-Term Debt

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

Other Liabilities

Other liabilities measured at fair value include securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased. AIG estimates the fair value of liabilities arising from securities sold under agreements to repurchase under dealer quotations, discounted cash flow analyses and/or internal valuation models. This methodology considers such factors as the coupon rate, yield curves, prepayment rates and other relevant factors. Fair values for securities sold but not yet purchased are based on current market prices. Fair values of spot commodities sold but not yet purchased are based on current market prices of reference spot futures contracts traded on exchanges.

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American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

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

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

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American International Group, Inc. and Subsidiaries

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

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

(a)

Represents netting of derivative exposures covered by a qualifying master netting agreement.

(b)

Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were $1.9 billion and $124 million, respectively, at March 31, 2011 and $1.4 billion and $109 million, respectively, at December 31, 2010.

(c)

Included in Level 1 are $12.2 billion and $11.1 billion at March 31, 2011 and December 31, 2010, respectively, of AIA shares publicly traded on the Hong Kong Stock Exchange. Approximately 4 percent and 5 percent of the fair value of the assets recorded as Level 3 relates to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at March 31, 2011 and December 31, 2010, respectively. AIG's ownership in these funds represented 62.4 percent, or $0.9 billion, of Level 3 assets at March 31, 2011 and 68.6 percent, or $1.3 billion, of Level 3 assets at December 31, 2010.

(d)

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

(e)

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

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

Transfers of Level 1 and Level 2 Assets and Liabilities

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

Changes in Level 3 Recurring Fair Value Measurements

The following tables present changes during the three-month periods ended March 31, 2011 and 2010 in Level 3 assets and liabilities measured at fair value on a recurring basis, and the realized and unrealized gains (losses) recorded in the Consolidated Statement of Income (Loss) during those periods related to the Level 3 assets and liabilities that remained in the Consolidated Balance Sheet at March 31, 2011 and 2010: