AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 07, 2009

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-8787

American International Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**13-2592361**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
70 Pine Street, New York, New York	**10270**
(Address of principal executive offices)	*(Zip Code)*

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

Former name, former address and former fiscal year, if changed since last report: None

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o 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. (Check one):

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

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 30, 2009, there were 2,690,808,696 shares outstanding of the registrant s common stock.

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American International Group, Inc. and Subsidiaries

Part I FINANCIAL INFORMATION

ITEM 1. *Financial Statements (unaudited)*

Consolidated Balance Sheet

	March 31, 2009	December 31, 2008
	(In millions) (Unaudited)	
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2009 $364,381; 2008 $373,600)	**$ 352,128**	$ 363,042
Bond trading securities, at fair value	**31,648**	37,248
Securities lending invested collateral, at fair value (cost: 2009 $1,465; 2008 3,906)	**1,328**	3,844
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2009 $6,918; 2008 $8,381)	**7,314**	8,808
Common and preferred stock trading, at fair value	**11,580**	12,335
Mortgage and other loans receivable, net of allowance (amount measured at fair value: 2009 $82; 2008 $131)	**33,367**	34,687
Finance receivables, net of allowance	**27,692**	30,949
Flight equipment primarily under operating leases, net of accumulated depreciation	**43,829**	43,395
Other invested assets (amount measured at fair value: 2009 $16,541; 2008 $19,196)	**45,770**	51,978
Securities purchased under agreements to resell, at fair value	**2,065**	3,960
Short-term investments (amount measured at fair value: 2009 $20,335; 2008 $19,316)	**53,410**	46,666
Total investments	**610,131**	636,912
Cash	**4,029**	8,642
Investment income due and accrued	**5,814**	5,999
Premiums and insurance balances receivable, net of allowance	**18,049**	17,330
Reinsurance assets, net of allowance	**21,672**	23,495
Trade receivables	**1,108**	1,901
Current and deferred income taxes	**14,812**	11,734
Deferred policy acquisition costs	**44,488**	45,782
Real estate and other fixed assets, net of accumulated depreciation	**5,346**	5,566
Unrealized gain on swaps, options and forward transactions, at fair value	**9,983**	13,773
Goodwill	**6,798**	6,952
	30,931	31,190

Other assets, including prepaid commitment asset of $14,636 in 2009 and $15,458 in 2008 (amount measured at fair value: 2009 $346; 2008 $369)				
Separate account assets, at fair value		**46,597**		51,142
Total assets	**$**	**819,758**	$	860,418

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Balance Sheet (Continued)

	March 31, 2009	December 31, 2008
	(In millions, except share data) (Unaudited)	
Liabilities:		
Liability for unpaid claims and claims adjustment expense	**$ 87,405**	$ 89,258
Unearned premiums	**24,691**	25,735
Future policy benefits for life and accident and health insurance contracts	**140,317**	142,334
Policyholder contract deposits (amount measured at fair value: 2009 $5,557; 2008 $5,458)	**218,530**	226,700
Other policyholder funds	**13,327**	13,240
Commissions, expenses and taxes payable	**4,987**	5,436
Insurance balances payable	**3,791**	3,668
Funds held by companies under reinsurance treaties	**2,106**	2,133
Securities sold under agreements to repurchase (amount measured at fair value: 2009 $3,003; 2008 $4,508)	**3,413**	5,262
Trade payables	**473**	977
Securities and spot commodities sold but not yet purchased, at fair value	**1,165**	2,693
Unrealized loss on swaps, options and forward transactions, at fair value	**3,196**	6,238
Trust deposits and deposits due to banks and other depositors (amount measured at fair value: 2009 $21; 2008 $30)	**4,093**	4,498
Commercial paper and extendible commercial notes	**196**	613
Federal Reserve Bank of New York Commercial Paper Funding Facility (amount measured at fair value: 2009 $6,747; 2008 $6,802)	**12,242**	15,105
Federal Reserve Bank of New York credit facility	**47,405**	40,431
Other long-term debt (amount measured at fair value: 2009 $17,492; 2008 $16,595)	**127,360**	137,054
Securities lending payable	**1,620**	2,879
Other liabilities (amount measured at fair value: 2009 $2,134; 2008 $1,355)	**22,622**	22,296
Separate account liabilities	**46,597**	51,142
Total liabilities	**765,536**	797,692
Commitments, contingencies and guarantees (See Note 9)		
Redeemable noncontrolling interest in partially owned consolidated subsidiaries	**1,013**	1,921
AIG shareholders equity:		
Preferred Stock, Series C; $5.00 par value and liquidation preference per share; shares issued: 2009 100,000	**1**	
Preferred Stock, Series D; liquidation preference of $10,000 per share; shares issued: 2009 and 2008 4,000,000	**20**	20
	7,370	7,370

Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2009 and 2008 2,948,038,001		
Additional paid-in capital	**72,316**	72,466
Accumulated deficit	**(16,706)**	(12,368)
Accumulated other comprehensive loss	**(8,860)**	(6,328)
Treasury stock, at cost; 2009 257,244,118; 2008 258,368,924 shares of common stock	**(8,382)**	(8,450)
Total AIG shareholders equity	**45,759**	52,710
Noncontrolling interest	**7,450**	8,095
Total equity	**53,209**	60,805
Total liabilities and equity	**$ 819,758**	$ 860,418

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Operations

Three Months Ended March 31,	2009	2008
	(In millions, except per share data) (Unaudited)	
Revenues:		
Premiums and other considerations	**$ 18,820**	$ 20,672
Net investment income	**2,283**	4,954
Net realized capital losses	**(3,102)**	(6,089)
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**(452)**	(9,107)
Other income	**2,909**	3,601
Total revenues	**20,458**	14,031
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	**16,043**	15,882
Policy acquisition and other insurance expenses	**5,294**	5,612
Interest expense	**2,845**	1,272
Restructuring expenses and related asset impairment and other expenses	**362**	
Other expenses	**2,282**	2,529
Total benefits, claims and expenses	**26,826**	25,295
Loss before income tax benefit	**(6,368)**	(11,264)
Income tax benefit	**(1,235)**	(3,537)
Net loss	**(5,133)**	(7,727)
Less: Net income (loss) attributable to noncontrolling interest	**(780)**	78
Net loss attributable to AIG	**$ (4,353)**	$ (7,805)
Loss per common share attributable to AIG:		
Basic	**$ (1.98)**	$ (3.09)
Diluted	**$ (1.98)**	$ (3.09)
Dividends declared per common share	**$**	$ 0.20
Weighted average shares outstanding:		
Basic	**2,705**	2,528
Diluted	**2,705**	2,528

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, 2009	**Amounts**	**Shares**
	(In millions, except share and per share data) (Unaudited)	
Preferred Stock, Series C:		
Balance, beginning of period	$	
Issuances	**1**	**100,000**
Balance, end of period	**1**	**100,000**
Preferred Stock, Series D:		
Balance, beginning and end of period	**20**	**4,000,000**
Common stock:		
Balance, beginning and end of period	**7,370**	**2,948,038,001**
Additional paid-in capital:		
Balance, beginning of period	**72,466**	
Reclassification of warrants upon change in accounting principle	**(91)**	
Excess of cost over proceeds of common stock issued under stock plans	**(69)**	
Other	**10**	
Balance, end of period	**72,316**	
Accumulated deficit:		
Balance, beginning of period	**(12,368)**	
Cumulative effect of change in accounting principle	**15**	
Adjusted balance, beginning of period	**(12,353)**	
Net loss attributable to AIG	**(4,353)**	
Balance, end of period	**(16,706)**	
Accumulated other comprehensive loss:		
Unrealized appreciation (depreciation) of investments, net of tax:		
Balance, beginning of period	**(4,452)**	
Unrealized appreciation (depreciation) of investments, net of reclassification adjustments	**(3,401)**	
Income tax benefit (expense)	**1,392**	
Balance, end of period	**(6,461)**	

Foreign currency translation adjustments, net of tax:		
Balance, beginning of period	**(187)**	
Translation adjustment	**(825)**	
Income tax benefit (expense)	**209**	
Balance, end of period	**(803)**	
Net derivative gains (losses) arising from cash flow hedging activities, net of tax:		
Balance, beginning of period	**(191)**	
Net gains (losses) on cash flow hedges, net of reclassification adjustments	**26**	
Income tax benefit (expense)	**27**	
Balance, end of period	**(138)**	
Retirement plan liabilities adjustment, net of tax:		
Balance, beginning of period	**(1,498)**	
Net actuarial gain	**61**	
Prior service cost	**(3)**	
Income tax benefit (expense)	**(18)**	
Balance, end of period	**(1,458)**	
Accumulated other comprehensive loss, end of period	**(8,860)**	
Treasury stock, at cost:		
Balance, beginning of period	**(8,450)**	**(258,368,924)**
Shares issued under stock plans	**68**	**1,109,485**
Other		**15,321**
Balance, end of period	**(8,382)**	**(257,244,118)**
Total AIG shareholders equity, end of period	**45,759**	
Noncontrolling interest:		
Balance, beginning of period	**8,095**	
Net loss attributable to noncontrolling interest	**(792)***	
Other changes	**147**	
Balance, end of period	**7,450**	
Total equity, end of period	**$ 53,209**	

* *A net gain of $12 million was recognized in the three-month period ended March 31, 2009 associated with redeemable noncontrolling interests.*

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,	2009	2008
	(In millions) (Unaudited)	
Summary:		
Net cash provided by operating activities	**$ 3,998**	$ 8,299
Net cash provided by investing activities	**558**	3,637
Net cash used in financing activities	**(8,998)**	(11,789)
Effect of exchange rate changes on cash	**(171)**	58
Change in cash	**(4,613)**	205
Cash at beginning of period	**8,642**	2,284
Cash at end of period	**$ 4,029**	$ 2,489
Cash flows from operating activities:		
Net loss	**$ (5,133)**	$ (7,727)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Noncash revenues, expenses, gains and losses included in income (loss):		
Unrealized market valuation losses on AIGFP super senior credit default swap portfolio	**452**	9,107
Net gains on sales of securities available for sale and other assets	**(137)**	(245)
Foreign exchange transaction (gains) losses	**(769)**	996
Net unrealized losses on non-AIGFP derivatives and other assets and liabilities	**416**	2,130
Equity in (income) loss from equity method investments, net of dividends or distributions	**2,195**	(79)
Amortization of deferred policy acquisition costs	**3,115**	3,156
Depreciation and other amortization	**630**	885
Provision for mortgage, other loans and finance receivables	**1,021**	251
Other-than-temporary impairments	**4,029**	5,597
Impairments of goodwill and other assets	**504**	48
Amortization of costs and accrued interest and fees related to FRBNY credit facility	**1,495**	
Changes in operating assets and liabilities:		
General and life insurance reserves	**(322)**	4,855
Premiums and insurance balances receivable and payable net	**(605)**	(1,588)
Reinsurance assets	**1,809**	241
Capitalization of deferred policy acquisition costs	**(3,340)**	(4,237)
Investment income due and accrued	**94**	(37)
Funds held under reinsurance treaties	**(23)**	(12)
Other policyholder funds	**257**	289
Income taxes receivable and payable net	**(1,414)**	(2,635)
Commissions, expenses and taxes payable	**(247)**	(27)
Other assets and liabilities net	**165**	300
Trade receivables and payables net	**290**	(4,353)

Trading securities	**394**	1,079
Net unrealized (gains) losses on swaps, options and forward transactions (net of cash collateral)	**270**	(1,796)
Securities purchased under agreements to resell	**1,895**	1,241
Securities sold under agreements to repurchase	**(1,833)**	1,283
Securities and spot commodities sold but not yet purchased	**(1,528)**	(914)
Finance receivables and other loans held for sale originations and purchases	**(22)**	(166)
Sales of finance receivables and other loans held for sale	**971**	363
Other, net	**(631)**	294
Total adjustments	**9,131**	16,026
Net cash provided by operating activities	**$ 3,998**	$ 8,299

See Accompanying Notes to Consolidated Financial Statements.

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American International Group, Inc. and Subsidiaries

Consolidated Statement of Cash Flows (Continued)

Three Months Ended March 31,	2009	2008
	(In millions) (Unaudited)	
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of fixed maturity securities available for sale and hybrid investments	**$ 14,514**	$ 16,287
Maturities of fixed maturity securities available for sale and hybrid investments	**5,220**	4,921
Sales of equity securities available for sale	**1,343**	2,772
Maturities of fixed maturity securities held to maturity		46
Sales of trading securities	**6,765**	9,323
Sales of flight equipment		128
Sales or distributions of other invested assets	**4,621**	4,895
Payments received on mortgage and other loans receivable	**1,900**	1,843
Principal payments received on finance receivables held for investment	**3,069**	3,510
Purchases of fixed maturity securities available for sale and hybrid investments	**(17,442)**	(21,054)
Purchases of equity securities available for sale	**(579)**	(2,512)
Purchases of fixed maturity securities held to maturity		(16)
Purchases of trading securities	**(5,895)**	(4,259)
Purchases of flight equipment (including progress payments)	**(803)**	(1,388)
Purchases of other invested assets	**(2,293)**	(6,363)
Mortgage and other loans receivable issued	**(1,445)**	(1,711)
Finance receivables held for investment originations and purchases	**(1,855)**	(4,978)
Change in securities lending invested collateral	**1,724**	4,153
Net additions to real estate, fixed assets, and other assets	**(127)**	(237)
Net change in short-term investments	**(7,925)**	(1,682)
Net change in non-AIGFP derivative assets and liabilities	**(234)**	(41)
Net cash provided by investing activities	**$ 558**	$ 3,637
Cash flows from financing activities:		
Proceeds from (payments for)		
Policyholder contract deposits	**$ 6,988**	$ 16,439
Policyholder contract withdrawals	**(12,968)**	(15,600)
Change in other deposits	**49**	515
Change in commercial paper and extendible commercial notes	**(421)**	112
Issuance of other long-term debt	**1,209**	12,559
Federal Reserve Bank of New York credit facility borrowings	**10,900**	
Change in Federal Reserve Bank of New York Commercial Paper Funding Facility borrowings	**(2,945)**	
Repayments on other long-term debt	**(5,953)**	(19,908)
Repayments on Federal Reserve Bank of New York credit facility borrowings	**(4,600)**	
Change in securities lending payable	**(1,236)**	(4,200)

Issuance of treasury stock		14
Payments advanced to purchase shares		(1,000)
Cash dividends paid to shareholders		(498)
Other, net	**(21)**	(222)
Net cash used in financing activities	**$ (8,998)**	$ (11,789)
Supplementary disclosure of cash flow information:		
Cash paid (received) during the period for:		
Interest	**$ 1,466**	$ 1,615
Taxes	**$ 179**	$ (901)
Non-cash financing activities:		
Interest credited to policyholder accounts included in financing activities	**$ 1,598**	$ 1,241
Treasury stock acquired using payments advanced to purchase shares	**$**	$ 1,733

See Accompanying Notes to Consolidated Financial Statements.

American International Group, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Loss

Three Months Ended March 31,	2009	2008
	(In millions) (Unaudited)	
Net loss	**$ (5,133)**	$ (7,727)
Other comprehensive income (loss):		
Cumulative effect of change in accounting principles		(162)
Income tax benefit on above changes		57
Unrealized depreciation of investments net of reclassification adjustments	**(3,372)**	(10,677)
Income tax benefit (expense) on above changes	**1,392**	3,748
Foreign currency translation adjustments	**(941)**	1,417
Income tax benefit (expense) on above changes	**209**	(251)
Net derivative gains (losses) arising from cash flow hedging activities net of reclassification adjustments	**26**	(133)
Income tax benefit (expense) on above changes	**27**	45
Change in retirement plan liabilities adjustment	**58**	6
Income tax benefit (expense) on above changes	**(18)**	2
Other comprehensive loss	**(2,619)**	(5,948)
Comprehensive loss	**(7,752)**	(13,675)
Comprehensive income (loss) attributable to noncontrolling interests	**(867)**	44
Comprehensive loss attributable to AIG	**$ (6,885)**	$ (13,719)

See Accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. Summary of Significant Accounting Policies and Subsequent Events

Basis of Presentation

These unaudited condensed consolidated financial statements do not include all disclosures required by accounting principles generally accepted in the United States (GAAP) for complete financial statements 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, 2008 (including the Form 10-K/A (Amendment No. 1) filed on April 30, 2009, the 2008 Annual Report on Form 10-K).

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. All material intercompany accounts and transactions have been eliminated.

Going Concern Considerations

In the 2008 Annual Report on Form 10-K, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG s businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months. At that time, the United States government issued the following statement referring to the March 2009 agreements in principle and other transactions they expected to be undertaken with AIG to strengthen AIG s capital position, enhance its liquidity, reduce its borrowing costs and facilitate its asset disposition program.

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

Recent Events

On March 4, 2009, AIG issued to the AIG Credit Facility Trust (together with its trustees acting in their capacities as trustees, the Trust), a trust established for the sole benefit of the United States Treasury, 100,000 shares of AIG s Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (AIG Series C Preferred Stock), pursuant to the Series C Perpetual, Convertible, Participating Preferred Stock Purchase Agreement, dated as of March 1, 2009 (the Series C Purchase Agreement), between the Trust and AIG, for an aggregate purchase price of $500,000, with an understanding that additional and independently sufficient consideration was also furnished to AIG by the Federal Reserve Bank of New York (FRBNY) in the form of its lending commitment (the FRBNY Facility) under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Agreement), between AIG and the FRBNY.

The AIG Series C Preferred Stock votes with AIG s common stock, par value $2.50 per share (AIG Common Stock), to the extent permitted by law. The Trust currently holds the AIG Series C Preferred Stock for the sole benefit of the United States Treasury. The AIG Series C Preferred Stock is entitled to (i) a percentage of the voting power of AIG s shareholders entitled to vote on any particular matter and (ii) a percentage of the aggregate dividend rights of the outstanding shares of AIG Common Stock and the AIG Series C Preferred Stock, in each case, on an as converted basis, which percentage when aggregated with the percentage representing the 53,801,766 shares of AIG Common Stock underlying the warrants issued to the United States Department of the Treasury (the Department of the Treasury), any other security convertible or exchangeable for AIG Common Stock beneficially owned by the Department of the Treasury and any AIG Common Stock directly owned by the Department of the Treasury, represents 79.9% of each such voting power and total dividends payable. 53,798,766 shares of AIG Common Stock underlie the warrant issued to the Department of the Treasury in November 2008 and 3,000 shares of AIG Common Stock underlie the warrant issued to the Department of the Treasury in April 2009, as described below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The AIG Series C Preferred Stock will remain outstanding even if the FRBNY Facility is repaid in full or otherwise terminates. The Series C Purchase Agreement restricts AIG s ability to issue or grant capital stock without the consent of the Trust, with certain limited exclusions. Pursuant to the Series C Purchase Agreement, AIG and AIG s Board of Directors are obligated to work in good faith with the Trust to ensure that AIG s corporate governance arrangements are satisfactory to the Trust.

On April 17, 2009, AIG entered into a Securities Exchange Agreement (the Series E Exchange Agreement) with the Department of the Treasury pursuant to which, among other things, the Department of the Treasury exchanged 4,000,000 shares of AIG s Series D Fixed Rate Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series D Preferred Stock), for 400,000 shares of AIG s Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series E Preferred Stock), with an aggregate liquidation preference of $41,604,576,000, which represents the issuance-date aggregate liquidation preference of the AIG Series D Preferred Stock surrendered plus accumulated but unpaid dividends thereon. The terms of the AIG Series E Preferred Stock are substantially the same as those of the AIG Series D Preferred Stock, except that the dividends are not cumulative, the liquidation preferences per share differ and the AIG Series E Preferred Stock is subject to a replacement capital covenant.

The Series E Exchange Agreement also permits the Department of the Treasury, under certain circumstances, to exchange the warrant exercisable for 53,798,766 shares of AIG Common Stock, which represented 2 percent of the outstanding shares of AIG Common Stock at the time of the issuance of the warrant received in connection with the issuance of the AIG Series D Preferred Stock (AIG Series D Warrant), for the same number of shares of the AIG Series C Preferred Stock.

On April 17, 2009, AIG entered into a Securities Purchase Agreement (the Series F Purchase Agreement) with the Department of the Treasury pursuant to which, among other things, AIG issued to the Department of the Treasury (i) 300,000 shares of AIG s Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series F Preferred Stock), and (ii) a warrant to purchase 3,000 shares of AIG Common Stock (AIG Series F Warrant).

Pursuant to the Series F Purchase Agreement, the Department of the Treasury has committed for five years to provide immediately available funds (the Department of the Treasury Commitment) in an amount up to $29.835 billion (the Available Amount) so long as:

AIG is not a debtor in a pending case under Title 11 of the United States Code; and

the Trust (or any successor entity established for the sole benefit of the United States Treasury) and the Department of the Treasury, in the aggregate, beneficially own more than 50 percent of the aggregate voting power of AIG s voting securities.

The Available Amount will be decreased by the aggregate amount of financial assistance that the Department of the Treasury provides to AIG, its subsidiaries or any special purpose vehicle established by or for the benefit of AIG or any of its subsidiaries after the issuance of the AIG Series F Preferred Stock and the AIG Series F Warrant, unless otherwise specified by the Department of the Treasury, in its sole discretion, under the terms of such financial assistance.

The Series E Exchange Agreement and the Series F Purchase Agreement restrict AIG s ability to repurchase capital stock and require AIG to continue to maintain policies limiting corporate expenses, lobbying activities and executive compensation.

The terms of the AIG Series F Preferred Stock are substantially the same as the terms of AIG Series E Preferred Stock except that the liquidation preferences per share differ and the AIG Series F Preferred Stock is not subject to a replacement capital covenant. The liquidation preference of the AIG Series F Preferred Stock is initially $0 per share and will be increased pro rata by the amount of each drawdown of the Department of the Treasury Commitment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The AIG Series F Warrant is exercisable, at any time, at an initial exercise price of $0.000001 per share. The AIG Series F Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. The Department of the Treasury has agreed that it will not exercise any voting rights with respect to the AIG Common Stock issued upon exercise of the AIG Series F Warrant.

On April 17, 2009, AIG and the Board of Governors of the Federal Reserve System entered into an Amendment No. 3 to the FRBNY Credit Agreement. The FRBNY Credit Agreement was amended, among other things, to:

- remove the minimum 3.5 percent LIBOR borrowing rate floor; and
- permit the issuance by AIG of the AIG Series E Preferred Stock, the AIG Series F Preferred Stock and the AIG Series F Warrant to the Department of the Treasury.

In the first quarter of 2009, the global financial crisis that has plagued many financial institutions since the second half of 2008 continued, characterized by a lack of liquidity, highly volatile markets, a steep depreciation in asset values across many asset classes, an erosion of investor confidence, a large widening of credit spreads in some sectors and a lack of price transparency in many markets.

AIG has been materially and adversely affected by these conditions and events in a number of ways, including:

- severe and continued declines in the valuation and performance of its investment portfolio across many asset classes, leading to decreased investment income and material unrealized and realized losses, including other-than-temporary impairments, both of which decreased Total equity in the Consolidated Balance Sheet and, to a lesser extent, the regulatory capital of its subsidiaries; and
- a general decline in business activity leading to reduced premium volume, increases in surrenders or cancellations of policies and increased competition from other insurers.

At April 29, 2009, amounts owed under the FRBNY Facility totaled $46.9 billion, including accrued compounding interest and fees, and the remaining available amount under the FRBNY Facility was $17.4 billion.

Other Transactions with the FRBNY

On March 2, 2009, AIG and the Board of Governors of the Federal Reserve System announced their intent to enter into transactions pursuant to which:

AIG will transfer to the FRBNY preferred equity interests in newly-formed special purpose vehicles (SPVs). Each SPV will have (directly or indirectly) as its only asset 100 percent of the common stock of an AIG operating subsidiary (American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited (AIA) in one case and American Life Insurance Company (ALICO) in the other). AIG expects to own the common interests of each SPV and will initially have the right to appoint the entire board of directors of each SPV. In exchange for the preferred equity interests received by the FRBNY, there would be a concurrent substantial reduction in the outstanding balance and maximum available amount to be borrowed on the

FRBNY Facility; and

AIG will issue to the FRBNY senior certificates in one or more newly-formed SPVs to be repaid with the net cash flows from designated blocks of existing life insurance policies in settlement of a portion of the outstanding balance of the FRBNY Facility. The amount of the FRBNY Facility reduction will be based on the proceeds received. The SPVs are expected to be consolidated by AIG.

AIG and the FRBNY have continued to negotiate the terms of these transactions and are taking other steps necessary to complete the transactions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Liquidity of Parent and Subsidiaries

AIG manages liquidity at both the parent and subsidiary levels. Since the fourth quarter of 2008, AIG has not had access to its traditional sources of long-term or short-term financing through the public debt markets. Further, in light of AIG s current common stock price, AIG does not expect to be able to issue equity securities in the public markets in the foreseeable future.

Historically, AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG s current financial situation, many of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG. As a result, AIG has been dependent on the FRBNY Facility, the Commercial Paper Funding Facility (CPFF) and other transactions with the FRBNY and the Department of the Treasury as its primary sources of liquidity. Primary uses of cash flow are for debt service and subsidiary funding.

Certain subsidiaries also have been dependent on the FRBNY and the Department of the Treasury to meet collateral posting requirements, to make debt repayments as amounts came due, and to meet capital or liquidity requirements at the insurance companies (primarily in the Life Insurance & Retirement Services segment) and other financial services operations.

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

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

In the first quarter of 2009, AIG closed the sales of AIG Philam Savings Bank and HSB Group, Inc. (HSB), the parent company of the Hartford Steam Boiler Inspection and Insurance Company. These operations had total assets and liabilities with carrying values of approximately $1.7 billion and $1.1 billion, respectively, at March 31, 2009. Aggregate proceeds from the sales of these businesses, including proceeds applied to repay intercompany loan facilities, were $0.8 billion.

Through April 30, 2009, AIG has closed transactions to sell AIG Life Insurance Company of Canada, a small German general insurance subsidiary, AIG Private Bank Ltd. and a Consumer Finance business in Thailand. These operations had total assets and liabilities with carrying values of approximately $6.0 billion and $5.6 billion, respectively, at March 31, 2009. Aggregate proceeds from the sales of these businesses, including proceeds applied to repay intercompany loan facilities, were $1.1 billion.

On April 16, 2009, AIG entered into a contract to sell its U.S. auto insurance business, 21st Century Insurance Group, to Farmers Group, Inc. Subject to satisfaction of certain closing conditions, including regulatory approvals, AIG expects the sale of 21st Century Insurance Group to close in the third quarter of 2009. This operation had total assets and liabilities with carrying values of approximately $5.7 billion and $3.4 billion, respectively, at March 31, 2009. Aggregate proceeds from the sale of this business, including proceeds applied to repay intercompany loan facilities, are expected to be $1.9 billion.

These seven operations had aggregate assets and liabilities with carrying values of approximately $13.4 billion and $10.1 billion, respectively, at March 31, 2009. Aggregate proceeds from the sales of these seven businesses, including proceeds applied to repay intercompany loan facilities, are expected to be $3.8 billion. These seven transactions are expected to generate $2.0 billion of net cash proceeds.

Statement of Financial Accounting Standards (FAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (FAS 144) requires that certain criteria be met in order for AIG to classify a business as held for sale. At March 31, 2009, the held for sale criteria in FAS 144 were not met for AIG s significant businesses included in the asset disposition plan. AIG continues to evaluate the status of its asset sales with respect to these criteria.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Management s Assessment and Conclusion

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

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

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

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

- the potential for continued declines in bond and equity markets;

- the planned sales of significant subsidiaries;

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

- the effect on AIG s businesses of continued compliance with the covenants of the FRBNY Credit Agreement, the Series C Purchase Agreement, the Series E Exchange Agreement and the Series F Purchase Agreement;

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

- the potential that AIG will be unable to complete the proposed subsidiary preferred equity transactions and that the recently completed and proposed transactions with the FRBNY and the Department of the Treasury do not achieve their desired objectives; and

- the potential regulatory actions in one or more countries, including possible actions resulting from the legal change in control as a result of the issuance of the AIG Series C Preferred Stock.

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

It is possible that the actual outcome of one or more of management s plans could be materially different, or that one or more of management s significant judgments or estimates about the potential effects of these risks and uncertainties could prove to be materially incorrect. If one or more of these possible outcomes is realized, AIG may need additional U.S. government support to meet its obligations as they come due.

AIG s consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded assets nor relating to the amounts and classification of liabilities that may be necessary should AIG be unable to continue as a going concern.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Recent Accounting Standards

Accounting Changes

AIG adopted the following accounting standards during the first quarter of 2009:

FAS 141(R)

In December 2007, the Financial Accounting Standards Board (FASB) issued FAS No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) changes the accounting for business combinations in a number of ways, including broadening the transactions or events that are considered business combinations; requiring an acquirer to recognize 100 percent of the fair value of certain assets acquired, liabilities assumed, and noncontrolling (i.e., minority) interests; and recognizing contingent consideration arrangements at their acquisition-date fair values with subsequent changes in fair value generally reflected in income, among other changes.

AIG adopted FAS 141(R) for business combinations for which the acquisition date is on or after January 1, 2009. The adoption of FAS 141(R) did not have a material effect on AIG s consolidated financial position, results of operations or cash flows at and for the three months ended March 31, 2009, but will affect the future accounting for business combinations, if any, as well as goodwill impairment assessments.

FAS 160

In December 2007, the FASB issued FAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (FAS 160). FAS 160 requires noncontrolling (i.e., minority) interests in partially owned consolidated subsidiaries to be classified in the consolidated balance sheet as a separate component of equity, or in the mezzanine section of the balance sheet (between liabilities and equity), to the extent such interests do not qualify as permanent equity in accordance with Emerging Issues Task Force (EITF) Topic D-98, Classification and Measurement of Redeemable Securities (revised September 2008). FAS 160 also specifies the accounting for subsequent acquisitions and sales of noncontrolling interests and how noncontrolling interests should be presented in the consolidated statement of operations. The noncontrolling interests share of subsidiary income (loss) should be reported as a part of consolidated net income (loss) with disclosure of the attribution of consolidated net income (loss) to the controlling and noncontrolling interests on the face of the consolidated statement of operations.

AIG adopted FAS 160 on January 1, 2009. FAS 160 was adopted prospectively, except the consolidated statement of operations for the three months ended March 31, 2008 was retrospectively recast to include net income (loss) attributable to both the controlling and noncontrolling interests. Of the $10.0 billion minority interest on the consolidated balance sheet at December 31, 2008, $1.9 billion was reclassified from minority interest liability to Redeemable noncontrolling interest in partially owned consolidated subsidiaries and $8.1 billion was reclassified to a separate component of total equity titled Noncontrolling interest.

FAS 161

In March 2008, the FASB issued FAS 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (FAS 161). FAS 161 requires enhanced disclosures about (a) how and why

AIG uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect AIG s consolidated financial condition, results of operations, and cash flows. AIG adopted FAS 161 on January 1, 2009. See Note 6 herein for related disclosures.

FSP FAS 140-3

In February 2008, the FASB issued FASB Staff Position (FSP) No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP FAS 140-3). FSP FAS 140-3 requires an initial

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

transfer of a financial asset and a repurchase financing that was entered into contemporaneously with or in contemplation of the initial transfer to be evaluated as a linked transaction unless certain criteria are met. AIG adopted FSP FAS 140-3 on January 1, 2009 for new transactions entered into from that date forward. The adoption of FSP FAS 140-3 did not have a material effect on AIG s consolidated financial condition, results of operations or cash flows.

EITF 07-5

In June 2008, the FASB ratified the consensus reached by the EITF on Issue No. 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock (EITF 07-5). Following the January 1, 2009 effective date, instruments that are not indexed to the issuer s stock would not qualify for an exception from derivative accounting provided in FAS 133 (which requires that an instrument is both indexed to the issuer s own stock, and that it is classified in equity). AIG adopted EITF 07-5 on January 1, 2009. The adoption of EITF 07-5 resulted in a $15 million cumulative effect adjustment to opening Accumulated Deficit and a $91 million reduction in Additional paid-in capital.

Future Application of Accounting Standards

FSP FAS 132(R)-1

In December 2008, the FASB issued FSP FAS 132(R)-1, Employer s Disclosures about Postretirement Benefit Plan Assets (FSP FAS 132(R)-1). FSP FAS 132(R)-1 amends FAS 132(R) to require more detailed disclosures about an employer s plan assets, including the employer s investment strategies, major categories of plan assets, concentrations of risk within plan assets, and valuation techniques used to measure the fair values of plan assets. FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009.

FSP FAS 107-1 and APB 28-1

In April 2009, the FASB issued FSP FAS 107-1 and APB 28, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1). FSP FAS 107-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. The FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 is effective for AIG s second quarter 2009 interim financial statements and will not affect AIG s consolidated financial condition, results of operations or cash flows.

FSP FAS 115-2 and FAS 124-2

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than Temporary Impairments, (FSP FAS 115-2). FSP FAS 115-2 requires a company to recognize the credit component of an other-than-temporary impairment of a debt security in income and the non-credit component in accumulated other comprehensive income when the company does not intend to sell the security and it is more likely than not the company will not be required to sell the security prior to recovery. FSP FAS 115-2 also changes the threshold for determining when an other-than-temporaryimpairment has occurred with respect to intent and ability to hold until recovery and requires additional disclosures. AIG will adopt FSP FAS 115-2 on April 1, 2009 and must record a cumulative effect adjustment, which will include any directly related effects on income taxes and certain other assets and liabilities for the non-credit component of previously recognized other-than-temporary impairments, through a decrease in accumulated deficit and an increase to accumulated other comprehensive loss as of April 1, 2009. AIG is analyzing the effect of FSP FAS 115-2 on its consolidated financial condition, results of operations and cash flows.

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

FSP FAS 157-4

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, (FSP FAS 157-4). FSP FAS 157-4 provides guidance for estimating fair value in accordance with FAS No. 157, Fair Value Measurement (FAS 157), when the volume and level of activity for an asset or liability have significantly decreased and for identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 also requires extensive disclosures. FSP FAS 157-4 is effective for AIG on April 1, 2009. AIG is analyzing the effect of FSP FAS 157-4 on its consolidated financial condition, results of operations and cash flows.

2. Restructuring

AIG has commenced an organization-wide restructuring plan under which some of its businesses will be divested, some will be held for later divestiture, and some will be prepared for potential offerings to the public. In addition, businesses expected to be retained may undergo restructuring activities.

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

At March 31, 2009, AIG cannot determine the expected date of completion or reliably estimate the total aggregate expenses expected to be incurred for all of AIG s restructuring and separation activities. This is due to the significant scale of the restructuring plan and the fact that restructuring costs will vary depending on the identity of the ultimate purchasers of the divested entities, as well as the extended period over which the restructuring is expected to occur. For those activities that can be reasonably estimated, the total restructuring and separation expenses expected to be incurred is $2.1 billion at March 31, 2009.

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

Three Months Ended March 31, 2009	Restructuring Expenses	Separation Expenses	Total	Cumulative Amounts Incurred Since Inception	Total Amounts Expected to be Incurred*
			(In millions)		
General Insurance	$ 21	$ 44	$ 65	$ 204	$ 357
Life Insurance & Retirement Services	9	46	55	123	256
Financial Services	58	51	109	396	660

Asset Management	4	11	15	83	105
Other	111	7	118	314	753
Total	$ 203	$ 159	$ 362	$ 1,120	$ 2,131

* *Includes cumulative amounts incurred and additional future amounts to be incurred that can be reasonably estimated at March 31, 2009.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The restructuring liability at December 31, 2008 and March 31, 2009 and the corresponding movement are summarized as follows:

Three Months Ended March 31, 2009	Severance Expenses*(a)*	Contract Termination Expenses	Asset Write-Downs	Other Exit Expenses*(b)*	Subtotal Restructuring Expenses	Separation Expenses*(c)*	Total Restructuring and Separation Expenses
	(In millions)						
Liability balance, at beginning of year	$ 77	$ 27	$	$ 87	$ 191	$ 284	$ 475
Additional charges	14	21	11	49	95	165	260
Cash payments	(33)	(13)		(119)	(165)	(287)	(452)
Non-cash items*(d)*	1	1	(11)	(12)	(21)	7	(14)
Changes in estimates*(e)*	24	(1)		85	108	(6)	102
Liability balance, end of period	$ 83	$ 35	$	$ 90	$ 208	$ 163	$ 371
Cumulative amounts incurred since inception	$ 127	$ 47	$ 62	$ 274	$ 510	$ 610	$ 1,120
Total amounts expected to be incurred*(f)*	$ 168	$ 118	$ 67	$ 700	$ 1,053	$ 1,078	$ 2,131

(a) Additional charges and Changes in estimates include $9 million of retention awards; Cumulative amounts incurred since inception include $53 million of retention awards; and Total amounts expected to be incurred include $58 million for retention awards for employees expected to be terminated.

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

(c) Additional charges and Changes in estimates include $153 million of retention awards; Cumulative amounts incurred since inception include $601 million of retention awards; and Total amounts expected to be incurred include $1.0 billion for key employee retention awards announced during 2008.

(d) Represents primarily asset impairment charges, foreign currency translation and reclassification adjustments.

(e) Represents primarily an increase in consulting and professional fees related to changes in the restructuring plan and wind-down activities at AIGFP.

(f) Includes cumulative amounts incurred and additional future amounts to be incurred that can be reasonably estimated at March 31, 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

3. Segment Information

AIG identifies its operating segments by product line consistent with its management structure and evaluates their performance based on operating income (loss) before taxes. These segments are General Insurance, Life Insurance & Retirement Services, Financial Services, and Asset Management.

AIG s results by operating segment were as follows:

Operating Segments	Three Months Ended March 31, 2009	2008
	(In millions)	
Total Revenues:		
General Insurance	**$ 10,692**	$ 12,289
Life Insurance & Retirement Services	**8,857**	8,752
Financial Services	**1,273**	(6,560)
Asset Management	**299**	(149)
Other	**(40)**	(128)
Consolidation and eliminations	**(623)**	(173)
Total	**20,458**	14,031
Net realized capital gains (losses):		
General Insurance	**(447)**	(273)
Life Insurance & Retirement Services	**(3,108)**	(4,369)
Financial Services	**(34)**	(151)
Asset Management	**(152)**	(1,405)
Other	**639**	109
Total	**(3,102)**	(6,089)
Operating Income (loss):		
General Insurance	**(1)**	1,337
Life Insurance & Retirement Services	**(1,873)**	(1,831)
Financial Services	**(1,122)**	(8,772)
Asset Management	**(633)**	(1,251)
Other	**(2,348)**	(768)
Consolidation and eliminations	**(391)**	21
Total	**$ (6,368)**	$ (11,264)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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

General Insurance	Three Months Ended March 31, 2009	2008
	(In millions)	
Total revenues:		
Commercial Insurance*	**$ 5,209**	$ 5,987
Transatlantic	**1,039**	1,119
Personal Lines	**1,024**	1,252
Mortgage Guaranty	**317**	298
Foreign General Insurance	**3,103**	3,628
Reclassifications and eliminations		5
Total	**$ 10,692**	$ 12,289
Operating income (loss):		
Commercial Insurance*	**$ 22**	$ 785
Transatlantic	**108**	162
Personal Lines	**2**	3
Mortgage Guaranty	**(480)**	(354)
Foreign General Insurance	**347**	736
Reclassifications and eliminations		5
Total	**$ (1)**	$ 1,337

* *Includes a gain on sale of HSB of $251 million in the first quarter of 2009.*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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

Life Insurance & Retirement Services	Three Months Ended March 31, 2009	2008
	(In millions)	
Total revenues:		
Foreign:		
Japan and Other	**$ 3,243**	$ 3,896
Asia	**4,449**	4,277
Domestic:		
Domestic Life Insurance	**1,515**	1,283
Domestic Retirement Services	**(350)**	(704)
Total	**$ 8,857**	$ 8,752
Operating income (loss):		
Foreign:		
Japan and Other	**$ 78**	$ 483
Asia	**256**	252
Domestic:		
Domestic Life Insurance	**(308)**	(870)
Domestic Retirement Services	**(1,899)**	(1,696)
Total	**$ (1,873)**	$ (1,831)

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

Financial Services	Three Months Ended March 31, 2009	2008
	(In millions)	
Total revenues:		
Aircraft Leasing	**$ 1,281**	$ 1,165
Capital Markets	**(969)**	(8,743)
Consumer Finance	**821**	931
Other, including intercompany adjustments	**140**	87

Total	**$ 1,273**	$ (6,560)
Operating income (loss):		
Aircraft Leasing	**$ 316**	$ 221
Capital Markets	**(1,121)**	(8,927)
Consumer Finance	**(298)**	(52)
Other, including intercompany adjustments	**(19)**	(14)
Total	**$ (1,122)**	$ (8,772)

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

4. Fair Value Measurements

Effective January 1, 2008, AIG adopted FAS 157 and FAS 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which specify measurement and disclosure standards related to assets and liabilities measured at fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(unaudited)*** ***(continued)***

The most significant effect of adopting FAS 157 on AIG s results of operations related to changes in fair value methodologies with respect to both liabilities already carried at fair value, primarily hybrid notes and derivatives, and newly elected liabilities measured at fair value (see FAS 159 discussion below). Specifically, the incorporation of AIG s own credit spreads and the incorporation of explicit risk margins (embedded policy derivatives at transition only) resulted in increases to pre-tax income of $2.8 billion ($1.8 billion after tax) for the three-month period ended March 31, 2008.

Fair Value Measurements on a Recurring Basis

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

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

Fair Value Hierarchy

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements include circumstances in which there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its 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 distressed ABS, structured credit products, certain derivative contracts (including AIGFP s super senior credit default swap portfolio), policyholder contract deposits carried at fair value, private equity and real estate fund investments, and direct private equity investments. AIG s non-financial-instrument assets that are measured at fair value on a non-recurring basis generally are classified as Level 3.

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

Incorporation of Credit Risk in Fair Value Measurements

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

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

Counterparty Credit Risk. Fair value measurements for freestanding derivatives incorporate counterparty credit by determining the explicit cost for AIG to protect against its net credit exposure to each counterparty at the balance sheet date by reference to observable counterparty credit default swap spreads. 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.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly include the incorporation of 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.

Fixed Maturity Securities Trading and Available for Sale

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

AIG estimates the fair value of fixed maturity securities not traded in active markets, including securities purchased (sold) under agreements to resell (repurchase), and mortgage and other loans receivable for which AIG elected the fair value option, by referring to traded securities with similar attributes, using dealer quotations, a matrix pricing methodology, discounted cash flow analyses or internal valuation models. This methodology considers such factors as the issuer s industry, the security s rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity instruments that are not traded in active markets or that are subject to transfer restrictions, valuations are

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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.

ML II and ML III

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

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

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

The benchmark LIBOR interest rate curve changes are determined by macroeconomic considerations and financial sector credit spreads. The spreads over LIBOR for the Maiden Lane Interests (including collateral-specific credit and liquidity spreads) can change as a result of changes in market expectations about the future performance of these investments as well as changes in the risk premium that market participants would demand at the time of the transactions.

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

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

Three Months Ended March 31, 2009	Fair Value Change ML II	ML III
	(In millions)	
Discount Rates		
200 basis point increase	$ (58)	$ (335)
400 basis point increase	(109)	(615)

Estimated Future Cash Flows		
10% decrease	(250)	(524)
20% decrease	(442)	(1,175)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

Equity Securities Traded in Active Markets Trading and Available for Sale

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

Mortgage and Commercial Finance Receivables Held for Sale

Fair values of mortgage loans held for sale are estimated using discounted cash flow calculations based on discount rates that AIG believes market participants would use in determining the price they would pay for such assets. For certain loans, AIG s current incremental lending rates for similar type loans are used as the discount rate, as it believes this rate approximates the rates market participants would use. Fair values of finance receivables held for sale are estimated using discounted cash flow calculations based on the weighted average rates currently being offered in the marketplace for similar finance receivables.

Non-Traded Equity Investments Other Invested Assets

AIG initially estimates the fair value of equity instruments not traded in active markets by reference to the transaction price. This valuation is adjusted only when changes to inputs and assumptions 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 changes in financial ratios or cash flows. For equity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability and such adjustments generally are based on available market evidence. In the absence of such evidence, management s best estimate is used.

Private Limited Partnership and Hedge Fund Investments Other Invested Assets

AIG initially estimates the fair value of investments in certain private limited partnerships and certain hedge funds by reference to the transaction price. Subsequently, AIG obtains the fair value of these investments generally from net asset value information provided by the general partner or manager of the investments, the financial statements of which generally are 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.

Freestanding Derivatives

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

OTC derivatives are valued using market transactions and other market evidence whenever possible, including market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. When models are used, the selection of a particular model to value an OTC derivative depends on the contractual terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. AIG generally uses similar models to value similar instruments. Valuation models require a variety of inputs, including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs. For

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be corroborated by observable market data by correlation or other means, and model selection does not involve significant management judgment.

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

Embedded Policy Derivatives

The fair value of embedded policy derivatives contained in certain variable annuity and equity-indexed annuity and life contracts is measured based on actuarial and capital market assumptions related to projected cash flows over the expected lives of the contracts. These cash flow estimates primarily include benefits and related fees assessed, when applicable, and incorporate expectations about policyholder behavior. Estimates of future policyholder behavior are subjective and based primarily on AIG s historical experience. With respect to embedded policy derivatives in AIG s variable annuity contracts, because of the dynamic and complex nature of the expected cash flows, risk-neutral valuations are used. Estimating the underlying cash flows for these products involves many estimates and judgments, including those regarding expected market rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. With respect to embedded policy derivatives in AIG s equity-indexed annuity and life contracts, option pricing models are used to estimate fair value, taking into account assumptions for future equity index growth rates, volatility of the equity index, future interest rates, and determinations on adjusting the participation rate and the cap on equity indexed credited rates in light of market conditions and policyholder behavior assumptions. With the adoption of FAS 157, these methodologies were not changed, with the exception of incorporating an explicit risk margin to take into consideration market participant estimates of projected cash flows and policyholder behavior. The valuation technique used to measure the fair value of certain variable annuity guarantees was modified during 2008, primarily with respect to the development of long-dated equity volatility assumptions and the discount rates applied to certain projected benefit payments.

AIGFP s Super Senior Credit Default Swap Portfolio

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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

In the case of credit default swaps written to facilitate regulatory capital relief, AIGFP estimates the fair value of these derivatives by considering observable market transactions. The transactions with the most observability are the early terminations of these transactions by counterparties. AIG expects that the counterparties in the remaining CDS transactions will terminate the vast majority of transactions with AIGFP within the next 12 months. AIGFP also considers other market data, to the extent relevant and available. See also Note 6 herein.

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

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

Prices for the individual securities held by a CDO are obtained in most cases from the CDO collateral managers, to the extent available. For the three months ended March 31, 2009, CDO collateral managers provided market prices for 61.5 percent of the underlying securities. When a price for an individual security is not provided by a CDO collateral manager, AIGFP derives the price through a pricing matrix using prices from CDO collateral managers for similar securities. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the relationship of the security to other benchmark quoted securities. Substantially all of the CDO collateral managers who provided prices used dealer prices for all or part of the underlying securities, in some cases supplemented by third-party pricing services.

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

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

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

In the case of credit default swaps written on portfolios of investment-grade corporate debt, AIGFP estimates the fair value of its obligations by comparing the contractual premium of each contract to the current market levels of the senior tranches of comparable credit indices, the iTraxx index for European corporate issuances and the CDX index for U.S. corporate issuances. These indices are considered reasonable proxies for the referenced portfolios. In

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

addition, AIGFP compares these valuations to third-party prices and makes adjustments as necessary to determine the best available estimate of fair value.

AIGFP estimates the fair value of its obligations resulting from credit default swaps written on collateralized loan obligations (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 beginning January 1, 2008 are measured using an income 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 operations.

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

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

Other long-term debt

When fair value accounting has been elected, the fair value of non-structured liabilities is determined by 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 all inputs are readily observable. AIG determines the fair value of structured liabilities (where performance is linked to structured interest rates, inflation or currency risks) and hybrid financial instruments (performance linked to risks other than interest rates, inflation or currency risks) using the appropriate derivative valuation methodology (described above) given the nature of the embedded risk profile. Such instruments are classified in Level 2 or Level 3 depending on the observability of significant inputs to the model. In addition, adjustments are made to the valuations of both non-structured and structured liabilities to reflect AIG s own credit worthiness based on observable credit spreads of AIG.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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:

	Level 1	Level 2	Level 3	Counterparty Netting*(a)*	Cash Collateral*(b)*	Total
				(In millions)		
At March 31, 2009						
Assets:						
Bonds available for sale	$ 548	$ 334,125	$ 17,455	$	$	$ 352,128
Bond trading securities	349	27,019	4,280			31,648
Securities lending invested collateral*(c)*		795	398			1,193
Common and preferred stock available for sale	6,239	975	100			7,314
Common and preferred stock trading	10,806	768	6			11,580
Mortgage and other loans receivable		82				82
Other invested assets*(d)*	1,743	5,110	9,688			16,541
Unrealized gain on swaps, options and forward transactions	284	65,484	3,575	(53,494)	(5,866)	9,983
Securities purchased under agreements to resell		2,065				2,065
Short-term investments	1,957	18,378				20,335
Separate account assets	43,614	2,186	797			46,597
Other assets		35	311			346
Total	$ 65,540	$ 457,022	$ 36,610	$ (53,494)	$ (5,866)	$ 499,812
Liabilities:						
Policyholder contract deposits	$	$	$ 5,557	$	$	$ 5,557
Other policyholder funds						
Securities sold under agreements to repurchase		2,956	47			3,003
Securities and spot commodities sold but not yet purchased	110	1,055				1,165
Unrealized loss on swaps, options and forward		60,106	15,431	(53,494)	(18,847)	3,196

transactions*(e)*						
Trust deposits and deposits due to banks and other depositors		**21**				**21**
Commercial paper		**6,747**				**6,747**
Other long-term debt		**16,961**	**531**			**17,492**
Other liabilities		**2,134**				**2,134**
Total	**$ 110**	**$ 89,980**	**$ 21,566**	**$ (53,494)**	**$ (18,847)**	**$ 39,315**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

	Level 1	Level 2	Level 3	Counterparty Netting*(a)*	Cash Collateral*(b)*	Total
			(In millions)			
At December 31, 2008						
Assets:						
Bonds available for sale	$ 414	$ 344,237	$ 18,391	$	$	$ 363,042
Bond trading securities	781	29,480	6,987			37,248
Securities lending invested collateral*(c)*		2,966	435			3,401
Common and preferred stock available for sale	7,282	1,415	111			8,808
Common and preferred stock trading	11,199	1,133	3			12,335
Mortgage and other loans receivable		131				131
Other invested assets*(d)*	1,853	6,175	11,168			19,196
Unrealized gain on swaps, options and forward transactions	223	90,998	3,865	(74,217)	(7,096)	13,773
Securities purchased under agreements to resell		3,960				3,960
Short-term investments	3,247	16,069				19,316
Separate account assets	47,902	2,410	830			51,142
Other assets		44	325			369
Total	$ 72,901	$ 499,018	$ 42,115	$ (74,217)	$ (7,096)	$ 532,721
Liabilities:						
Policyholder contract deposits	$	$	$ 5,458	$	$	$ 5,458
Other policyholder funds						
Securities sold under agreements to repurchase		4,423	85			4,508
Securities and spot commodities sold but not yet purchased	1,124	1,569				2,693
Unrealized loss on swaps, options and forward transactions*(e)*	1	85,255	14,435	(74,217)	(19,236)	6,238
Trust deposits and deposits due to banks and other depositors		30				30
Commercial paper		6,802				6,802
Other long-term debt		15,448	1,147			16,595

Other liabilities		1,355				1,355
Total	$ 1,125	$ 114,882	$ 21,125	$ (74,217)	$ (19,236)	$ 43,679

(a) *Represents netting of derivative exposures covered by a qualifying master netting agreement in accordance with FASB Interpretation (FIN) 39, Offsetting of Amounts Related to Certain Contracts.*

(b) *Represents cash collateral posted and received. Securities collateral posted that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, amounted to $6.1 billion and $1.2 billion, respectively, at March 31, 2009 and $4.2 billion and $1.6 billion, respectively, at December 31, 2008.*

(c) *Amounts exclude short-term investments that are carried at cost, which approximates fair value of $135 million and $443 million at March 31, 2009 and December 31, 2008, respectively.*

(d) *Approximately 15 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 both March 31, 2009 and December 31, 2008, respectively. AIG s ownership in these funds represented 26.2 percent, or $1.4 billion, of*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

the Level 3 amount at March 31, 2009 and 27.6 percent, or $1.7 billion, of the Level 3 amount at December 31, 2008.

(e) Included in Level 3 is the fair value derivative liability of $9.5 billion and $9.0 billion at March 31, 2009 and December 31, 2008, respectively, on the AIGFP super senior credit default swap portfolio.

At March 31, 2009, Level 3 assets were 4.5 percent of total assets, and Level 3 liabilities were 2.8 percent of total liabilities. At December 31, 2008, Level 3 assets were 4.9 percent of total assets, and Level 3 liabilities were 2.6 percent of total liabilities.

The following tables present changes during the three-month periods ended March 31, 2009 and 2008 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 Operations during the three-month periods ended March 31, 2009 and 2008 related to the Level 3 assets and liabilities that remained in the Consolidated Balance Sheet at March 31, 2009 and 2008:

	Balance Beginning of Period*(a)*	Net Realized and Unrealized Gains (Losses) Included in Income*(b)*	Accumulated Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements-Net	Transfers In (Out)	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
	(In millions)						
Three Months Ended March 31, 2009							
Assets:							
Bonds available for sale	$ 18,391	$ (899)	$ 431	$ (897)	$ 429	$ 17,455	$
Bond trading securities	6,987	(2,559)		(197)	49	4,280	(1,589)
Securities lending invested collateral	435		(42)	134	(129)	398	
Common and preferred stock	111	(3)	(4)	(3)	(1)	100	

available for sale							
Common and preferred stock trading	**3**				**3**	**6**	
Other invested assets	**11,168**	**(934)**	**(693)**	**256**	**(109)**	**9,688**	**(980)**
Other assets	**325**	**6**		**(20)**		**311**	**6**
Separate account assets	**830**	**(21)**		**(12)**		**797**	**(20)**
Total	**$ 38,250**	**$ (4,410)**	**$ (308)**	**$ (739)**	**$ 242**	**$ 33,035**	**$ (2,583)**
Liabilities:							
Policyholder contract deposits	**$ (5,458)**	**$ 154**	**$ (138)**	**$ (115)**	**$**	**$ (5,557)**	**$ 2,149**
Securities sold under agreements to repurchase	**(85)**	**2**		**36**		**(47)**	**(2)**
Unrealized loss on swaps, options and forward transactions, net	**(10,570)**	**(1,323)**	**8**	**281**	**(252)**	**(11,856)**	**(1,069)**
Other long-term debt	**(1,147)**	**442**		**122**	**52**	**(531)**	**(420)**
Total	**$ (17,260)**	**$ (725)**	**$ (130)**	**$ 324**	**$ (200)**	**$ (17,991)**	**$ 658**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

	Balance Beginning of Period*(a)*	Net Realized and Unrealized Gains (Losses) Included in Income*(b)*	Accumulated Other Comprehensive Loss	Purchases, Sales, Issuances and Settlements-Net	Transfers In (Out)	Balance End of Period	Changes in Unrealized Gains (Losses) on Instruments Held at End of Period
				(In millions)			
Three Months Ended March 31, 2008							
Assets:							
Bonds available for sale	$ 19,071	$ (766)	$ (485)	$ (185)	$ (143)	$ 17,492	$
Bond trading securities	4,563	(986)		(11)	(31)	3,535	(974)
Securities lending invested collateral	11,353	(1,791)	179	(228)	109	9,622	
Common and preferred stock available for sale	359	1		17	7	384	
Common and preferred stock trading	30		1	(6)		25	
Other invested assets	10,373	345	67	614	(51)	11,348	111
Other assets	141	6		190		337	6
Separate account assets	1,003	30		32		1,065	31
Total	$ 46,893	$ (3,161)	$ (238)	$ 423	$ (109)	$ 43,808	$ (826)
Liabilities:							
Policyholder contract deposits	$ (3,674)	$ (186)	$ (64)	$ (194)	$	$ (4,118)	$ (199)
Securities sold under agreements to repurchase	(208)	(17)		5		(220)	(17)
Unrealized loss on swaps, options and forward transactions, net	(11,710)	(8,970)		(181)	(69)	(20,930)	(9,003)

Other long-term debt	(3,578)	116		456	168	(2,838)	223
Other liabilities	(511)			507		(4)	(7)
Total	$ (19,681)	$ (9,057)	$ (64)	$ 593	$ 99	$ (28,110)	$ (9,003)

(a) Total Level 3 derivative exposures have been netted on these tables for presentation purposes only.

(b) Net realized and unrealized gains and losses shown above are reported in the Consolidated Statement of Operations primarily as follows:

Major Category of Assets/Liabilities	**Consolidated Statement of Operations Line Items**
Bonds available for sale	Net realized capital gains (losses)
Bond trading securities	Net investment income Other income
Other invested assets	Net realized capital gains (losses) Other income
Policyholder contract deposits	Policyholder benefits and claims incurred Net realized capital gains (losses)
Unrealized loss on swaps, options and forward transactions, net	Unrealized market valuation losses on AIGFP super senior credit default swap portfolio Net realized capital gains (losses) Other income

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3 in the tables above. As a result, the unrealized gains (losses) on instruments held at March 31, 2009 and 2008 may include changes in fair value that were attributable to both observable (e.g., changes in market interest rates) and unobservable inputs (e.g., changes in unobservable long-dated volatilities).

AIG uses various hedging techniques to manage risks associated with certain positions, including those classified within Level 3. Such techniques may include the purchase or sale of financial instruments that are classified within Level 1 and/or Level 2. As a result, the realized and unrealized gains (losses) for assets and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

liabilities classified within Level 3 presented in the table above do not reflect the related realized or unrealized gains (losses) on hedging instruments that are classified within Level 1 and/or Level 2.

Changes in the fair value of separate and variable account assets are completely offset in the consolidated statement of operations by changes in separate and variable account liabilities, which are not carried at fair value and therefore not included in the tables above.

Fair Value Measurements on a Non-Recurring Basis

AIG also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets include cost and equity-method investments, life settlement contracts, flight equipment primarily under operating leases, collateral securing foreclosed loans and real estate and other fixed assets, goodwill, and other intangible assets. AIG uses a variety of techniques to measure the fair value of these assets when appropriate, as described below:

Cost and Equity-Method Investments: When AIG determines that the carrying value of these assets may not be recoverable, AIG records the assets at fair value with the loss recognized in income. In such cases, AIG measures the fair value of these assets using the techniques discussed in Fair Value Measurements on a Recurring Basis Fair Value Hierarchy, above, for fixed maturities and equity securities.

Life Settlement Contracts: AIG measures the fair value of individual life settlement contracts (which are included in other invested assets) whenever the carrying value plus the undiscounted future costs that are expected to be incurred to keep the life settlement contract in force exceed the expected proceeds from the contract. In those situations, the fair value is determined on a discounted cash flow basis, incorporating current life expectancy assumptions. The discount rate incorporates current information about market interest rates, the credit exposure to the insurance company that issued the life settlement contract and AIG s estimate of the risk margin an investor in the contracts would require.

Flight Equipment Primarily Under Operating Leases: When AIG determines the carrying value of its commercial aircraft may not be recoverable, AIG records the aircraft at fair value with the loss recognized in income. AIG measures the fair value of its commercial aircraft using an income approach based on the present value of all cash flows from existing and projected lease payments (based on historical experience and current expectations regarding market participants) including net contingent rentals for the period extending to the end of the aircraft s economic life in its highest and best use configuration, plus its disposition value.

Collateral Securing Foreclosed Loans and Real Estate and Other Fixed Assets: When AIG takes collateral in connection with foreclosed loans, AIG generally bases its estimate of fair value on the price that would be received in a current transaction to sell the asset by itself.

Goodwill: AIG tests goodwill for impairment whenever events or changes in circumstances indicate the carrying amount of goodwill may not be recoverable, but at least annually. When AIG determines goodwill may be impaired, AIG uses techniques including discounted expected future cash flows, appraisals, or, in the case of reporting units being considered for sale, third-party indications of fair value, if available.

Long-Lived Assets: AIG tests its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of a long-lived asset may not be recoverable. AIG measures the fair value of long-lived assets based on an in-use premise that considers the same factors used to estimate the fair value of its real estate and other fixed assets under an in-use premise discussed above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Assets measured at fair value on a non-recurring basis on which impairment charges were recorded, and the related impairment charges, were as follows:

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended March 31,	
	Level 1	Level 2	Level 3	Total	2009	2008
	(In millions)					
At March 31, 2009						
Goodwill	$	$	$	$	$	$ 45
Real estate owned			3,009	3,009	158	
Other investments	4		3,380	3,384	292	
Other assets		177	189	366	72	
Total	$ 4	$ 177	$ 6,578	$ 6,759	$ 522	$ 45
At December 31, 2008						
Real estate owned	$	$	$ 1,379	$ 1,379		
Other investments	15		3,122	3,137		
Other assets		29	1,160	1,189		
Total	$ 15	$ 29	$ 5,661	$ 5,705		

AIG recognized an impairment charge primarily attributable to certain investment real estate and other long-lived assets of $522 million for the three-month period ended March 31, 2009, which was included in other income. As required by FAS 157, the fair value disclosed in the table above is unadjusted for transaction costs. The amounts recorded on the consolidated balance sheet are net of transaction costs.

At March 31, 2008, AIG had assets measured at fair value on a non-recurring basis on which it recorded an impairment charge totaling $45 million during the three-month period ended March 31, 2008. This charge resulted from the write-off of goodwill related to Mortgage Guaranty.

Fair Value Option

FAS 159 permits a company to choose to measure at fair value many financial instruments and certain other assets and liabilities that are not required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in income. Unrealized gains and losses on financial instruments in AIG s insurance businesses and in AIGFP for which the fair value option was elected under FAS 159 are classified in Policyholder benefit and claims incurred and in Other income, respectively, in the Consolidated Statement of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The following table presents the gains or losses recorded during the three-month periods ended March 31, 2009 and 2008 related to the eligible instruments for which AIG elected the fair value option:

	Gain (Loss) Three Months Ended March 31, 2009	2008
	(In millions)	
Mortgage and other loans receivable	**$ (47)**	$ 68
Trading securities	**(1,671)**	(433)
Trading ML II and ML III	**(2,200)**	
Securities purchased under agreements to resell	**(16)**	268
Other invested assets	**(22)**	10
Short-term investments	**(2)**	24
Policyholder contract deposits*(a)*	**(48)**	115
Securities sold under agreements to repurchase	**121**	(296)
Securities and spot commodities sold but not yet purchased	**(34)**	21
Trust deposits and deposits due to banks and other depositors	**11**	(15)
Long-term debt	**2,587**	(973)
Other liabilities	**138**	(33)
Total gain (loss) for the three months ended March 31*(b)*	**$ (1,183)**	$ (1,244)

(a) *AIG elected to apply the fair value option to certain single premium variable life products in Japan and an investment-linked life insurance product sold principally in Asia, both classified within policyholder contract deposits in the consolidated balance sheet. AIG elected the fair value option for these liabilities to more closely align its accounting with the economics of its transactions. For the investment-linked product sold principally in Asia, the election more effectively aligns changes in the fair value of assets with a commensurate change in the fair value of policyholders liabilities. For the single premium life products in Japan, the fair value option election allows AIG to economically hedge the inherent market risks associated with this business in an efficient and effective manner through the use of derivative instruments. The hedging program, which was completely implemented in the third quarter of 2008, results in an accounting presentation for this business that more closely reflects the underlying economics and the way the business is managed, with the change in the fair value of derivatives and underlying assets largely offsetting the change in fair value of the policy liabilities. AIG did not elect the fair value option for other liabilities classified in policyholder contract deposits because other contracts do not share the same contract features that created the disparity between the accounting presentation and the economic performance.*

(b)

Not included in the table above were gains of $637 million and losses of $8.2 billion for the three-month periods ended March 31, 2009 and 2008, respectively, that were primarily due to changes in the fair value of derivatives, trading securities and certain other invested assets for which the fair value option under FAS 159 was not elected. Included in these amounts were unrealized market valuation losses of $452 million and $9.1 billion for the three-month periods ended March 31, 2009 and 2008, respectively, related to AIGFP s super senior credit default swap portfolio.

Interest income and expense and dividend income on assets and liabilities elected under the fair value option are recognized and classified in the consolidated statement of operations depending on the nature of the instrument and related market conventions. For AIGFP-related activity, interest, dividend income, and interest expense are included in other income. Otherwise, interest and dividend income are included in net investment income in the consolidated statement of operations. See Note 1(a) to the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K for additional information about AIG s policies for recognition, measurement, and disclosure of interest and dividend income and interest expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

During the three-month periods ended March 31, 2009 and 2008, AIG recognized a gain of $1.2 billion and $1.4 billion, respectively, attributable to the observable effect of changes in credit spreads on AIG s own liabilities for which the fair value option was elected. AIG calculates the effect of these credit spread changes using discounted cash flow techniques that incorporate current market interest rates, AIG s observable credit spreads on these liabilities and other factors that mitigate the risk of nonperformance such as collateral posted.

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

	At March 31, 2009			At December 31, 2008		
	Fair Value	Outstanding Principal Amount	Difference	Fair Value	Outstanding Principal Amount	Difference
	(In millions)					
Assets:						
Mortgage and other loans receivable	$ 82	$ 248	$ (166)	$ 131	$ 244	$ (113)
Liabilities:						
Long-term debt	$ 16,235	$ 14,551	$ 1,684	$ 21,285	$ 16,827	$ 4,458

At March 31, 2009 and December 31, 2008, there were no mortgage and other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

5. Variable Interest Entities

FIN 46(R), Consolidation of Variable Interest Entities, (FIN 46(R)) provides guidance for determining when to consolidate certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity that is at risk to allow the entity to finance its activities without additional subordinated financial support. FIN 46(R) recognizes that consolidation based on majority voting interest should not apply to these variable interest entities (VIEs). A VIE is consolidated by its primary beneficiary, which is the party or group of related parties that absorbs a majority of the expected losses of the VIE, receives the majority of the expected residual returns of the VIE, or both.

AIG generally determines whether it is the primary beneficiary or a significant interest holder based on a qualitative assessment of the VIE. This includes a review of the VIE s capital structure, contractual relationships and terms, nature of the VIE s operations and purpose, nature of the VIE s interests issued, and AIG s interests in the entity that either create or absorb variability. AIG evaluates the design of the VIE and the related risks the entity was designed to expose the variable interest holders to in evaluating consolidation. In limited cases, when it may be unclear from a qualitative standpoint if AIG is the primary beneficiary, AIG uses a quantitative analysis to calculate the probability weighted expected losses and probability weighted expected residual returns using cash flow modeling.

AIG s total off balance sheet exposure associated with VIEs was $2.8 billion and $3.3 billion at March 31, 2009 and December 31, 2008, respectively.

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The following table presents AIG s total assets, total liabilities and off-balance sheet exposure associated with its significant variable interests in consolidated VIEs:

	VIE Assets*		VIE Liabilities		Off-Balance Sheet Exposure	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
	(In billions)					
Real estate and investment funds	**$ 5.1**	$ 5.6	**$ 3.0**	$ 3.1	**$ 1.1**	$ 0.9
Commercial paper conduit	**7.7**	8.8	**8.1**	8.5		
CLOs/CDOs	**0.2**	0.3				
Affordable housing partnerships	**2.6**	2.7				
Other	**0.6**	0.2	**0.4**			
Total	**$ 16.2**	$ 17.6	**$ 11.5**	$ 11.6	**$ 1.1**	$ 0.9

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

AIG defines a variable interest as significant relative to the materiality of its interest in the VIE. AIG calculates its maximum exposure to loss to be (i) the amount invested in the debt or equity of the VIE, (ii) the notional amount of VIE assets or liabilities where AIG has also provided credit protection to the VIE with the VIE as the referenced obligation, or (iii) other commitments and guarantees to the VIE. Interest holders in VIEs sponsored by AIG generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except in limited circumstances when AIG has provided a guarantee to the VIE s interest holders.

The following table presents total assets of unconsolidated VIEs in which AIG holds a significant variable interest or is a sponsor that holds a variable interest in a VIE, and AIG s maximum exposure to loss associated with these VIEs:

		Maximum Exposure to Loss				
		On-Balance Sheet		Off-Balance Sheet		
	Total VIE Assets	Purchased and Retained Interests	Other	Commitments and Guarantees	Derivatives	Total
	(In billions)					
March 31, 2009						
Real estate and investment funds	**$ 20.9**	**$ 2.4**	**$ 0.4**	**$ 1.4**	**$**	**$ 4.2**

CLOs/CDOs		**91.7**		**4.6**						**0.3**		**4.9**
Affordable housing partnerships		**1.1**				**1.1**						**1.1**
Maiden Lane Interests		**37.4**		**2.7**								**2.7**
Other*		**7.7**		**1.1**		**0.5**						**1.6**
Total	**$**	**158.8**	**$**	**10.8**	**$**	**2.0**	**$**	**1.4**	**$**	**0.3**	**$**	**14.5**
December 31, 2008												
Real estate and investment funds	$	23.5	$	2.5	$	0.5	$	1.6	$		$	4.6
CLOs/CDOs		95.9		6.4						0.5		6.9
Affordable housing partnerships		1.0				1.0						1.0
Maiden Lane Interests		46.4		4.9								4.9
Other*		8.7		2.1		0.5		0.3				2.9
Total	$	175.5	$	15.9	$	2.0	$	1.9	$	0.5	$	20.3

* *Includes $1.3 billion and $1.4 billion of assets held in an unconsolidated structured investment vehicle (SIV) sponsored by AIGFP at March 31, 2009 and December 31, 2008, respectively. At both March 31, 2009 and*

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

December 31, 2008, AIGFP s invested assets included $0.6 billion of securities purchased under agreements to resell, commercial paper and medium-term and capital notes issued by this entity.

Balance Sheet Classification

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

	Consolidated VIEs		Unconsolidated VIEs	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
	(In billions)			
Assets:				
Mortgage and other loans receivable	**$**	$	**$ 0.5**	$ 0.5
Available for sale securities	**7.9**	9.1	**4.7**	6.4
Trading securities (primarily Maiden Lane Interests)	**0.2**		**3.4**	5.5
Other invested assets	**3.6**	4.3	**3.1**	3.5
Other asset accounts	**4.5**	4.2	**1.5**	2.0
Total	**$ 16.2**	$ 17.6	**$ 13.2**	$ 17.9
Liabilities:				
FRBNY commercial paper funding facility	**$ 6.7**	$ 6.8	**$**	$
Other long-term debt	**4.8**	4.8	**0.4**	
Total	**$ 11.5**	$ 11.6	**$ 0.4**	$

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

See Note 9 to the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K for additional information on VIEs.

6. Derivatives and Hedge Accounting

AIG uses derivatives and other financial instruments as part of its financial risk management programs and as part of its investment operations. AIGFP has also transacted in derivatives as a dealer.

Derivatives, as defined in FAS 133, are financial arrangements among two or more parties with returns linked to or derived from some underlying equity, debt, commodity or other asset, liability, or foreign exchange rate or other index or the occurrence of a specified payment event. Derivative payments may be based on interest rates, exchange rates, prices of certain securities, commodities, or financial or commodity indices or other variables. Derivatives, with the exception of bifurcated embedded derivatives, are reflected at fair value on the Consolidated Balance Sheet in Unrealized gain on swaps, options and forward transactions, at fair value and Unrealized loss on swaps, options and forward contracts, at fair value. Bifurcated embedded derivatives are recorded with the host contract on the Consolidated Balance Sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

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

At March 31, 2009	*Derivative Assets* Notional Amount*(a)*	*Derivative Assets* *Fair Value(b)*	*Derivative Liabilities* *Notional Amount(a)*	*Derivative Liabilities* *Fair Value(b)*
	(In millions)			
Derivatives designated as hedging instruments:				
Interest rate contracts	$ 3,450	$ 551	$ 2,573	$ 195
Foreign exchange contracts	7,562	1,293	1,963	442
Total derivatives designated as hedging instruments	$ 11,012	$ 1,844	$ 4,536	$ 637
Derivatives not designated as hedging instruments:				
Interest rate contracts	$ 501,644	$ 56,248	$ 520,422	$ 54,841
Foreign exchange contracts	20,487	2,635	51,690	2,862
Equity contracts	9,311	3,087	13,031	2,862
Commodity contracts	18,969	3,949	14,324	2,781
Credit contracts	4,632	924	269,974	11,046
Other contracts	43,827	865	22,189	2,509
Total derivatives not designated as hedging instruments	$ 598,870	$ 67,708	$ 891,630	$ 76,901
Total derivatives	$ 609,882	$ 69,552	$ 896,166	$ 77,538

(a) *Notional amount represents a standard of measurement of the volume of swaps business of AIG. Notional amount is not a quantification of market risk or credit risk and is not recorded on the consolidated balance sheet. Notional amounts generally represent those amounts used to calculate contractual cash flows to be exchanged and are not paid or received, except for certain contracts such as currency swaps.*

(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral in accordance with FIN 39.

The fair values of derivative assets and liabilities on the Consolidated Balance Sheet were as follows:

At March 31, 2009	Derivative Assets*(a)*	Derivative Liabilities*(b)*
	(In millions)	
AIGFP derivatives	$ 66,526	$ 75,230

Non-AIGFP derivatives	3,026	2,308
Total derivatives, gross	69,552	77,538
Counterparty netting*(c)*	(53,494)	(53,494)
Cash collateral*(d)*	(5,866)	(18,847)
Total derivatives, net	$ 10,192	$ 5,197

(a) Included in non-AIGFP derivatives are $209 million of bifurcated embedded derivatives of which $192 million and $17 million, respectively, are recorded in Policyholder contract deposits and Bonds available for sale, at fair value.

(b) Included in non-AIGFP derivatives are $2.0 billion of bifurcated embedded derivatives of which $2.0 billion, $4 million and $2 million are recorded in Policyholder contract deposits, Common and preferred stocks available for sale, at fair value, and Bonds available for sale, at fair value, respectively.

(c) Represents netting of derivative exposures covered by a qualifying master netting agreement in accordance with FIN 39.

(d) Represents cash collateral posted and received.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Hedge Accounting

AIG designated certain AIGFP derivatives as either fair value or cash flow hedges of certain debt issued by AIG parent (including the Matched Investment Program (MIP)), International Lease Finance Corporation (ILFC) and American General Finance, Inc. (AGF). The fair value hedges included (i) interest rate swaps that were designated as hedges of the change in the fair value of fixed rate debt attributable to changes in the benchmark interest rate and (ii) foreign currency swaps designated as hedges of the change in fair value of foreign currency denominated debt attributable to changes in foreign exchange rates and/or the benchmark interest rate. With respect to the cash flow hedges, (i) interest rate swaps were designated as hedges of the changes in cash flows on floating rate debt attributable to changes in the benchmark interest rate, and (ii) foreign currency swaps were designated as hedges of changes in cash flows on foreign currency denominated debt attributable to changes in the benchmark interest rate and foreign exchange rates. AIG is using hedge accounting for its exposure to the variability in future cash flows for forecasted transactions excluding those forecasted transactions related to the payment of variable interest on existing financial instruments for up to seven years from March 31, 2009.

Beginning in the first quarter of 2009, AIG began using debt instruments in net investment hedge relationships to mitigate the foreign exchange risk associated with AIG s non-U.S. dollar functional currency foreign subsidiaries. AIG assesses the hedge effectiveness and measures the amount of ineffectiveness for these hedge relationships based on changes in spot exchange rates. AIG records the change in the carrying amount of these investments in the foreign translation adjustment within Accumulated other comprehensive loss. Simultaneously, the effective portion of the hedge of this exposure is also recorded in foreign translation adjustment and the ineffective portion, if any, is recorded in earnings. If (1) the notional amount of the hedging debt instrument matches the designated portion of the net investment and (2) the hedging debt instrument is denominated in the same currency as the functional currency of the hedged net investment, no ineffectiveness is recorded in earnings. In the three-month period ended March 31, 2009, AIG recognized a gain of $9 million included in Foreign currency translation adjustment in Accumulated other comprehensive loss related to the net investment hedge relationships.

The following table presents the effect of AIG s derivative instruments in fair value hedging relationships on the Consolidated Statement of Operations:

Three Months Ended March 31, 2009	Gains (Losses) Recognized in Earnings on Derivative	Gains (Losses) Recognized in Earnings on Hedged Item	Gains (Losses) Recognized in Earnings for Ineffective Portion and Amount Excluded from Effectiveness Testing

	(In millions)		
Derivatives in Fair Value Hedging Relationships:			
Interest rate contracts*(a)*	$ (79)	$ 105	$ 26
Foreign exchange contracts*(b)(c)*	(457)	556	99
Total	$ (536)	$ 661	$ 125

(a) Gains and losses recognized in earnings on derivatives and hedged items are recorded in Interest expense. Gains and losses recognized in earnings on derivatives for the ineffective portion and amounts excluded from effectiveness testing are recorded in Net realized capital losses and Other income, respectively.

(b) Gains and losses recognized in earnings are recorded in Net realized capital losses, except for the amounts excluded from effectiveness testing, which are recorded in Other income.

(c) Includes $94 million related to the ineffective portion and $5 million for amounts excluded from effectiveness testing.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The following table presents the effect of AIG s derivative instruments in cash flow hedging relationships and derivative instruments in net investment hedging relationships on the Consolidated Statement of Operations:

For the Three Months Ended March 31, 2009	Gains (Losses) Recognized in OCI on Derivatives and Hedged Items	Gains (Losses) Reclassified from Accumulated OCI into Earnings*(a)*	Gains (Losses) Recognized in Earnings on Derivatives for Ineffective Portion
		(In millions)	
Derivatives in Cash Flow Hedging Relationships:			
Interest rate contracts*(b)*	$ 42	$ 15	$ (1)
Foreign exchange contracts*(b)*	11	12	
Total	$ 53	$ 27	$ (1)

(a) At March 31, 2009, $97 million of the deferred net loss in Accumulated other comprehensive income is expected to be recognized in earnings during the next 12 months.

(b) Gains and losses reclassified from Accumulated other comprehensive loss are recorded in Other income. Gains or losses recognized in earnings on derivatives for the ineffective portion are recorded in Net realized capital losses.

Derivatives Not Designated as Hedging Instruments

The following table presents the effect of AIG s derivative instruments not designated as hedging instruments on the Consolidated Statement of Operations:

For the Three Months Ended March 31, 2009	Gains (Losses) Recognized in Earnings* (In millions)
Derivatives Not Designated As Hedging Instruments	
Interest rate contracts	$ 1,426
Foreign exchange contracts	53
Equity contracts	139

Commodity contracts		145
Credit contracts		(263)
Other contracts		12
Total	$	1,512

* *Represents gains of $657 million and $855 million recorded in Net realized capital losses and Other income, respectively.*

AIGFP Derivatives

AIGFP enters into derivative transactions to mitigate risk in its exposures (interest rates, currencies, commodities, credit and equities) arising from its transactions. In most cases, AIGFP did not hedge its exposures related to the credit default swaps it had written. As a dealer, AIGFP structured and entered into derivative transactions to meet the needs of counterparties who may be seeking to hedge certain aspects of such counterparties   operations or obtain a desired financial exposure.

AIGFP   s derivative transactions involving interest rate swap transactions generally involve the exchange of fixed and floating rate interest payment obligations without the exchange of the underlying notional amounts. AIGFP typically became a principal in the exchange of interest payments between the parties and, therefore, is

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(unaudited) (continued)***

exposed to counterparty credit risk and may be exposed to loss, if counterparties default. Currency, commodity, and equity swaps are similar to interest rate swaps, but involve the exchange of specific currencies or cashflows based on the underlying commodity, equity securities or indices. Also, they may involve the exchange of notional amounts at the beginning and end of the transaction. Swaptions are options where the holder has the right but not the obligation to enter into a swap transaction or cancel an existing swap transaction.

AIGFP follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with securities available for sale by entering into internal offsetting positions, on a security by security basis within its derivatives portfolio, thereby offsetting a significant portion of the unrealized appreciation and depreciation. In addition, to reduce its credit risk, AIGFP has entered into credit derivative transactions with respect to $626 million of securities to economically hedge its credit risk.

Futures and forward contracts are contracts that obligate the holder to sell or purchase foreign currencies, commodities or financial indices in which the seller/purchaser agrees to make/take delivery at a specified future date of a specified instrument, at a specified price or yield. Options are contracts that allow the holder of the option to purchase or sell the underlying commodity, currency or index at a specified price and within, or at, a specified period of time. As a writer of options, AIGFP generally receives an option premium and then manages the risk of any unfavorable change in the value of the underlying commodity, currency or index by entering into offsetting transactions with third-party market participants. Risks arise as a result of movements in current market prices from contracted prices, and the potential inability of the counterparties to meet their obligations under the contracts.

AIGFP Written Super Senior Credit Default Swaps

AIGFP entered into credit default swap transactions with the intention of earning revenue on credit exposure. In the majority of AIGFP s credit default swap transactions, AIGFP sold credit protection on a designated portfolio of loans or debt securities. Generally, AIGFP provides such credit protection on a second loss basis, meaning that AIGFP would incur credit losses only after a shortfall of principal and/or interest, or other credit events, in respect of the protected loans and debt securities, exceeds a specified threshold amount or level of first losses.

Typically, the credit risk associated with a designated portfolio of loans or debt securities has been tranched into different layers of risk, which are then analyzed and rated by the credit rating agencies. At origination, there is usually an equity layer covering the first credit losses in respect of the portfolio up to a specified percentage of the total portfolio, and then successive layers ranging generally from a BBB-rated layer to one or more AAA-rated layers. A significant majority of AIGFP transactions that were rated by rating agencies have risk layers or tranches rated AAA at origination and are immediately junior to the threshold level above which AIGFP s payment obligation would generally arise. In transactions that were not rated, AIGFP applied equivalent risk criteria for setting the threshold level for its payment obligations. Therefore, the risk layer assumed by AIGFP with respect to the designated portfolio of loans or debt securities in these transactions is often called the super senior risk layer, defined as a layer of credit risk senior to one or more risk layers rated AAA by the credit rating agencies, or if the transaction is not rated, structured to the equivalent thereto.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

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

	Net Notional Amount at		Fair Value of Derivative Liability at		Unrealized Market Valuation (Gain) Loss Three Months Ended March 31	
	March 31, 2009*(a)*	December 31, 2008*(a)*	March 31, 2009*(b)*	December 31, 2008*(b)*	2009*(c)*	2008*(c)*
	(In millions)					
Regulatory Capital:						
Corporate loans	**$ 99,381**	$ 125,628	**$**	$	**$**	$
Prime residential mortgages	**90,165**	107,246				
Other*(d)*	**3,008**	1,575	**393**	379	**14**	
Total	**192,554**	234,449	**393**	379	**14**	
Arbitrage:						
Multi-sector CDOs*(e)(f)*	**11,984**	12,556	**6,715**	5,906	**809**	8,037
Corporate debt/CLOs*(g)*	**49,601**	50,495	**2,196**	2,554	**(358)**	896
Total	**61,585**	63,051	**8,911**	8,460	**451**	8,933
Mezzanine tranches*(h)*	**4,217**	4,701	**182**	195	**(13)**	174
Total	**$ 258,356**	$ 302,201	**$ 9,486**	$ 9,034	**$ 452**	$ 9,107

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

(b) Fair value amounts are shown before the effects of counterparty netting adjustments and offsetting cash collateral in accordance with FIN 39.

(c) Includes credit valuation adjustment gains of $106 million and $65 million in the three-month periods ended March 31, 2009 and 2008, respectively, representing the positive effect of AIG s widening credit spreads on the valuation of the derivatives liabilities.

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

(e) *Includes $9.3 billion and $9.7 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2009 and December 31, 2008, respectively.*

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

(g) *Includes $1.4 billion and $1.5 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs as of March 31, 2009 and December 31, 2008, respectively.*

(h) *Net of offsetting purchased CDS of $1.6 billion and $2.0 billion in net notional amount at March 31, 2009 and December 31, 2008, respectively.*

All outstanding CDS transactions for regulatory capital purposes and the majority of the arbitrage portfolio have cash-settled structures in respect of a basket of reference obligations, where AIGFP s payment obligations, other than for posting collateral, may be triggered by payment shortfalls, bankruptcy and certain other events such as write-downs of the value of underlying assets. For the remainder of the CDS transactions in respect of the arbitrage portfolio, AIGFP s payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The expected weighted average maturity of AIGFP s super senior credit derivative portfolios as of March 31, 2009 was 0.8 years for the regulatory capital corporate loan portfolio, 0.9 years for the regulatory capital prime residential mortgage portfolio, 7.1 years for the regulatory capital other portfolio, 3.8 years for the multi-sector CDO arbitrage portfolio and 5.4 years for the corporate debt/CLO portfolio.

Regulatory Capital Portfolio

A total of $192.6 billion in net notional amount of AIGFP s super senior credit default swap portfolio as of March 31, 2009 represented derivatives written for financial institutions, principally in Europe, for the purpose of providing regulatory capital relief rather than for arbitrage purposes. In exchange for a periodic fee, the counterparties receive credit protection with respect to a portfolio of diversified loans they own, thus reducing their minimum capital requirements. These CDS transactions were structured with early termination rights for counterparties allowing them to terminate these transactions at no cost to AIGFP at a certain period of time or upon a regulatory event such as the implementation of the Revised Framework for the International Convergence of Capital Measurement and Capital Standards issued by the Basel Committee on Banking Supervision. During the three-month period ended March 31, 2009, $27.8 billion in net notional amount was terminated or matured. Through April 30, 2009, AIGFP has also received formal termination notices for an additional $16.6 billion in net notional amount with effective termination dates in 2009.

The regulatory capital relief CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with a regulatory capital relief transaction only if realized credit losses in respect of the underlying portfolio exceed AIGFP s attachment point.

The super senior tranches of these CDS transactions continue to be supported by high levels of subordination, which, in most instances, have increased since origination. The weighted average subordination supporting the European residential mortgage and corporate loan referenced portfolios at March 31, 2009 was 13.3 percent and 18.3 percent, respectively. The highest level of realized losses to date in any single residential mortgage and corporate loan pool was 2.15 percent and 0.48 percent, respectively. The corporate loan transactions are each comprised of several hundred secured and unsecured loans diversified by industry and, in some instances, by country, and have per-issuer concentration limits. Both types of transactions generally allow some substitution and replenishment of loans, subject to defined constraints, as older loans mature or are prepaid. These replenishment rights generally mature within the first few years of the trade, after which the proceeds of any prepaid or maturing loans are applied first to the super senior tranche (sequentially), thereby increasing the relative level of subordination supporting the balance of AIGFP s super senior CDS exposure.

Given the current performance of the underlying portfolios, the level of subordination and the expectation that counterparties will terminate these transactions prior to their maturity, AIGFP does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief.

Arbitrage Portfolio

A total of $61.6 billion and $63.1 billion in net notional amount on AIGFP s super senior credit default swaps as of March 31, 2009 and December 31, 2008, respectively, are arbitrage-motivated transactions written on multi-sector CDOs or designated pools of investment grade senior unsecured corporate debt or CLOs.

The outstanding multi-sector CDO CDS portfolio at March 31, 2009 was written on CDO transactions that generally held a concentration of residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS) and inner CDO securities. At March 31, 2009, approximately $7.1 billion net notional amount (fair value liability of $4.4 billion) of this portfolio was written on super senior multi-sector CDOs that contain some level of sub-prime RMBS collateral, with a concentration in the 2005 and earlier vintages of sub-prime RMBS. AIGFP s portfolio also included both high grade and mezzanine CDOs.

The majority of multi-sector CDO CDS transactions require cash settlement and, other than for collateral posting, AIGFP is required to make a payment in connection with such transactions only if realized credit losses in

American International Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

respect of the underlying portfolio exceed AIGFP s attachment point. In the remainder of the portfolio, AIGFP s payment obligations are triggered by the occurrence of a credit event under a single reference security, and performance is limited to a single payment by AIGFP in return for physical delivery by the counterparty of the reference security.

Included in the multi-sector CDO portfolio are 2a-7 Puts. Holders of securities are required, in certain circumstances, to tender their securities to the issuer at par. If an issuer s remarketing agent is unable to resell the securities so tendered, AIGFP must purchase the securities at par as long as the security has not experienced a payment default or certain bankruptcy events with respect to the issuer of such security have not occurred. At March 31, 2009 and December 31, 2008, 2a-7 Puts with a net notional amount of $1.5 billion and $1.7 billion, respectively, were outstanding.

Included in these amounts were $252 million in net notional amount subject to 2a-7 Puts that may be exercised in 2009. ML III has agreed for the remainder of 2009 to not sell any multi-sector CDOs in 2009 that are subject to a 2a-7 Put and to either not exercise its put option on such multi-sector CDOs or to simultaneously exercise its par put option with a par purchase of the multi-sector CDO securities. In exchange, AIG Financial Products Corp. agreed to pay to ML III the consideration that it received for providing the put protection. AIG Financial Products Corp. and ML III are in discussions to reach similar agreements for 2a-7 Puts that may be exercised beyond 2009.

The corporate arbitrage portfolio consists principally of CDS transactions written on portfolios of senior unsecured corporate obligations that were generally rated investment grade at inception of the CDS. These CDS transactions require cash settlement. Also, included in this portfolio are CDS transactions with a net notional of $1.4 billion written on the senior part of the capital structure of CLOs, which require physical settlement.

Certain of the super senior credit default swaps provide the counterparties with an additional termination right if AIG s rating level falls to BBB or Baa2. At that level, counterparties to the CDS transactions with a net notional amount of $36.9 billion at March 31, 2009 have the right to terminate the transactions early. If counterparties exercise this right, the contracts provide for the counterparties to be compensated for the cost to replace the transactions, or an amount reasonably determined in good faith to estimate the losses the counterparties would incur as a result of the termination of the transactions.

Given the level of uncertainty in estimating both the number of counterparties who may elect to exercise their right to terminate and the payment that may be triggered in connection with any such exercise, AIG is unable to reasonably estimate the aggregate amount that it would be required to pay under the super senior credit default swaps in the event of any credit rating downgrade below AIG s current ratings.

Due to long-term maturities of the CDS in the arbitrage portfolio, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, the net notional amount represents the maximum exposure to loss on the super senior credit default swap portfolio.

Collateral

Most of AIGFP s super senior credit default swaps are subject to collateral posting provisions, which typically are governed by International Swaps and Derivatives Association, Inc. (ISDA) Master Agreements (Master Agreements) and Credit Support Annexes. These provisions differ among counterparties and asset classes. Although AIGFP has collateral posting obligations associated with both regulatory capital relief transactions and arbitrage transactions, the large majority of these obligations to date have been associated with arbitrage transactions in respect of multi-sector CDOs.

AIGFP has received collateral calls from counterparties in respect of certain super senior credit default swaps, of which a large majority relate to multi-sector CDOs. To a lesser extent, AIGFP has also received collateral calls in respect of certain super senior credit default swaps entered into by counterparties for regulatory capital relief purposes and in respect of corporate arbitrage.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(unaudited) (continued)***

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

Collateral amounts under Master Agreements may be netted against one another where the counterparties are each exposed to one another in respect of different transactions. Actual collateral postings with respect to Master Agreements may be affected by other agreed terms, including threshold and independent amounts, that may increase or decrease the amount of collateral posted.

At March 31, 2009 and December 31, 2008, the amount of collateral postings with respect to AIGFP s super senior credit default swap portfolio (prior to offsets for other transactions) was $9.4 billion and $8.8 billion, respectively.

AIGFP Written Single Name Credit Default Swaps

AIGFP has also entered into credit default swap contracts referencing single-name exposures written on corporate, index, and asset-backed credits, with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long short strategy allowing AIGFP to earn the net spread between CDS they wrote and ones they purchased. At March 31, 2009, the net notional amount of these written CDS contracts was $5.5 billion, with an average credit rating of BBB. AIGFP has hedged these exposures by purchasing offsetting CDS contracts of $2.3 billion in net notional amount with identical reference obligations. The net unhedged position of approximately $3.2 billion represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 3.4 years. At March 31, 2009, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was $1.3 billion.

Upon a triggering event (e.g., a default) with respect to the underlying credit, AIGFP would normally have the option to settle the position through an auction process (cash settle) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit obligor (physical settle).

AIGFP wrote these written CDS contracts under Master Agreements. The majority of these Master Agreements include Credit Support Annexes, which provide for collateral postings at various ratings and threshold levels. At March 31, 2009, AIGFP had posted $1.4 billion of collateral under these contracts.

Non-AIGFP Derivatives

AIG and its subsidiaries (other than AIGFP) also use derivatives and other instruments as part of their financial risk management programs. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with investments in fixed income securities, commercial paper issuances, medium- and long-term note offerings, and other interest rate sensitive assets and liabilities. In addition, foreign exchange derivatives (principally cross currency swaps, forwards and options) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures and foreign exchange transactions. The derivatives are effective economic hedges of the exposures they are meant to offset.

In addition to hedging activities, AIG also uses derivative instruments with respect to investment operations, which include, among other things, credit default swaps, and purchasing investments with embedded derivatives, such as equity linked notes and convertible bonds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Matched Investment Program Written Credit Default Swaps

The MIP has entered into CDS contracts as a writer of protection, with the intention of earning spread income on credit exposure in an unfunded form. The portfolio of CDS contracts were single-name exposures and, at inception, were predominantly high-grade corporate credits.

The MIP invested in written CDS contracts through an affiliate which then transacts directly with unaffiliated third parties under ISDA agreements. As of March 31, 2009, the notional amount of written CDS contracts was $4.1 billion with an average credit rating of BBB+. The average maturity of the written CDS contracts is 3 years as of March 31, 2009. As of March 31, 2009, the fair value (which represents the carrying value) of the MIP s written CDS was $(52) million.

The majority of the ISDA agreements include credit support annex provisions, which provide for collateral postings at various ratings and threshold levels. At March 31, 2009, $105 million of collateral was posted for CDS contracts related to the MIP. The notional amount represents the maximum exposure to loss on the written CDS contracts. However, due to the average investment grade rating and expected default recovery rates, actual losses are expected to be less. AIG Investments, as investment manager for MIP, manages the credit exposure through its corporate credit risk process.

Upon a triggering event (e.g., a default) with respect to the underlying credit, the MIP would normally have the option to settle the position through an auction process (cash settlement) or pay the notional amount of the contract to the counterparty in exchange for a bond issued by the underlying credit (physical settlement).

Credit Risk Related Contingent Features

AIG holds certain credit risk-related contingent features with various counterparties in relation to its derivative transactions that are in a net liability position at March 31, 2009. These features are predominantly limited to additional collateral posting requirements contingent upon downgrade of AIG s credit rating. In addition, AIG attempts to reduce credit risk with certain counterparties by entering into agreements that enable collateral to be obtained from a counterparty on an upfront or contingent basis.

The aggregate fair value of AIG s derivative instruments, including those of AIGFP, that contain credit risk related contingent features that are in a net liability position at March 31, 2009 was approximately $18.8 billion. The aggregate fair value of assets posted as collateral at March 31, 2009, was $18.8 billion. See Note 4 herein.

It is estimated that as of the close of business on March 31, 2009, based on AIG s outstanding financial derivative transactions, including those of AIGFP, at that date, a one-notch downgrade of AIG s long-term senior debt ratings to Baa1 by Moody s Investors Service (Moody s) and BBB+ by Standard & Poor s, a division of the McGraw-Hill Companies, Inc. (S&P), would permit counterparties to make additional collateral calls and permit the counterparties to elect early termination of contracts, resulting in up to approximately $4.2 billion of corresponding collateral postings and termination payments, a two-notch downgrade to Baa2 by Moody s and BBB by S&P would result in approximately $4.0 billion in additional collateral postings and termination payments, and a three-notch downgrade to Baa3 by Moody s and BBB- by S&P would result in approximately $1.0 billion in additional collateral and termination payments. Such termination payments may significantly differ from fair value.

See Note 10 to the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K for additional information on derivatives.

7. Total Equity and Earnings (Loss) Per Share

Series C Perpetual, Convertible, Participating Preferred Stock

On March 4, 2009, AIG issued 100,000 shares of AIG Series C Preferred Stock to the Trust.

The Trust currently holds the AIG Series C Preferred Stock for the sole benefit of the United States Treasury. The holders of the AIG Series C Preferred Stock have preferential liquidation rights over the holders of the AIG

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

Common Stock and, to the extent permitted by law, vote with the AIG Common Stock on all matters submitted to AIG s shareholders. The AIG Series C Preferred Stock is entitled to (i) a percentage of the voting power of AIG s shareholders entitled to vote on any particular matter and (ii) a percentage of the aggregate dividend rights of the outstanding shares of AIG Common Stock and the AIG Series C Preferred Stock, in each case, on an as converted basis, which percentage, when aggregated with the percentage representing the 53,801,766 shares of AIG Common Stock underlying the warrants issued to the Department of the Treasury, any other securities convertible into or exchangeable for AIG Common Stock beneficially owned by the Department of the Treasury and any AIG Common Stock directly owned by the Department of the Treasury, represents 79.9% of each such voting power and total dividends payable. 53,798,766 shares of AIG Common Stock underlie the AIG Series D Warrant and 3,000 shares of AIG Common Stock underlie the AIG Series F Warrant.

Earnings (Loss) Per Share (EPS)

Basic earnings (loss) per share and diluted loss per share are based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted earnings per share is based on those shares used in basic EPS plus shares that would have been outstanding assuming issuance of common shares for all dilutive potential common shares outstanding, adjusted to reflect all stock dividends and stock splits. Basic earnings (loss) per share is not affected by outstanding stock purchase contracts. Diluted earnings per share is determined considering the potential dilution from outstanding stock purchase contracts using the treasury stock method and will not be affected by outstanding stock purchase contracts until the applicable market value exceeds $45.60.

The computation of basic and diluted EPS was as follows:

Three Months Ended March 31,	**2009**	**2008**
	(In millions, except per share data)	
Numerator for EPS:		
Net loss attributable to AIG	**$ (4,353)**	$ (7,805)
Cumulative dividends on AIG Series D Preferred Stock	**(1,012)**	
Net loss attributable to AIG, applicable to common stock for EPS	**$ (5,365)**	$ (7,805)
Denominator for EPS:		
Weighted average shares outstanding used in the computation of EPS attributable to AIG:		
Common stock issued	**2,948**	2,751
Common stock in treasury	**(257)**	(237)
Deferred shares	**14**	14
Weighted average shares outstanding basic	**2,705**	2,528
Weighted average shares outstanding diluted*	**2,705**	2,528

EPS attributable to AIG:				
Basic	**$**	**(1.98)**	$	(3.09)
Diluted	**$**	**(1.98)**	$	(3.09)

* *Calculated using the treasury stock method. Certain shares arising from share-based employee compensation plans and the AIG Series D Warrant were not included in the computation of diluted EPS because the effect would have been anti-dilutive. The number of shares excluded were 94 million and 7 million for the three-month periods ended March 31, 2009 and 2008, respectively.*

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

8. Ownership and Transactions With Related Parties

(a) Ownership: According to the Schedule 13D filed on May 1, 2009 by Maurice R. Greenberg, Edward E. Matthews, Starr International Company, Inc., C.V. Starr & Co., Inc., Universal Foundation, Inc., The Maurice R. and Corinne P. Greenberg Family Foundation, Inc., Maurice R. and Corinne P. Greenberg Joint Tenancy Company, LLC and C.V. Starr & Co., Inc. Trust, these reporting persons could be deemed to beneficially own 269,019,475 shares of AIG s common stock at that date. Based on the shares of AIG s common stock outstanding at April 30, 2009, this ownership would represent approximately 10.0 percent of the common stock of AIG. Although these reporting persons may have made filings under Section 16 of the Exchange Act, reporting sales of shares of common stock, no amendment to the Schedule 13D has been filed to report a change in ownership subsequent to May 1, 2009.

(b) For discussion of the AIG Series C Preferred Stock and the ownership by the Trust for the sole benefit of the United States Treasury of a majority of the voting equity interest of AIG, see Note 7 herein.

9. Commitments, Contingencies and Guarantees

(a) Litigation and Investigations

Litigation Arising from Operations. AIG and its subsidiaries, in common with the insurance and financial services industries in general, are subject to litigation, including claims for punitive damages, in the normal course of their business. In AIG s insurance operations, litigation arising from claims settlement activities is generally considered in the establishment of AIG s liability for unpaid claims and claims adjustment expense. However, the potential for increasing jury awards and settlements makes it difficult to assess the ultimate outcome of such litigation.

Various federal, state and foreign regulatory and governmental agencies are reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with AIG s liquidity problems and industry-wide and other inquiries, including matters relating to compensation paid to AIGFP employees and payments made to AIGFP counterparties. These reviews include ongoing investigations by the U.S. Securities and Exchange Commission (SEC) and U.S. Department of Justice (DOJ) with respect to the valuation of AIGFP s multi-sector CDO super senior credit default swap portfolio under fair value accounting rules and disclosures relating thereto, and by the UK Serious Fraud Office with respect to the U.K. operations of AIGFP. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

In connection with certain SEC investigations, AIG understands that some of its employees have received Wells notices and it is possible that additional current and former employees could receive similar notices in the future. Under SEC procedures, a Wells notice is an indication that the SEC staff has made a preliminary decision to recommend enforcement action that provides recipients with an opportunity to respond to the SEC staff before a formal recommendation is finalized.

Although AIG cannot currently quantify its ultimate liability for the unresolved litigation and investigation matters referred to below, it is possible that such liability could have a material adverse effect on AIG s consolidated financial condition, or its consolidated results of operations or consolidated cash flow for an individual reporting period.

Litigation Relating to AIG s Subprime Exposure and AIGFP s Employee Retention Plan

Securities Actions Southern District of New York. On May 21, 2008, a purported securities fraud class action complaint was filed against AIG and certain of its current and former officers and directors in the United States District Court for the Southern District of New York (the Southern District of New York). The complaint alleges that defendants made statements during the period May 11, 2007 through May 9, 2008 in press releases, AIG s quarterly and year-end filings and during conference calls with analysts which were materially false and misleading and which artificially inflated the price of AIG s stock. The alleged false and misleading statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

relate to, among other things, unrealized market valuation losses on AIGFP s super senior credit default swap portfolio as a result of severe credit market disruption. The complaint alleges claims under Sections 10(b) and 20(a) of the Exchange Act. Three additional purported securities class action complaints were subsequently filed in the Southern District of New York, all containing similar allegations. One of the additional complaints, filed on June 19, 2008, alleges a purported class period of November 10, 2006 through June 6, 2008.

On October 9, 2008, a purported securities class action complaint was filed in the Southern District of New York on behalf of purchasers of AIG s 7.70 percent Series A-5 Junior Subordinated Debentures issued in a registered public offering on December 11, 2007 against AIG, certain of its current and former officers and directors, and the underwriters of the offering. The complaint alleges that defendants made statements in AIG s registration statement, prospectus and quarterly and year-end filings which were materially false and misleading, in violation of Sections 11, 12(a) and 15 of the Securities Act of 1933. The claims are based generally on the same allegations as the securities fraud class actions described above. An additional purported securities class action complaint was filed in the Southern District of New York on October 27, 2008, containing identical allegations.

On December 4, 2008, a purported securities class action complaint was filed in the Southern District of New York on behalf of purchasers of various AIG securities issued pursuant to three shelf registration statements filed on June 12, 2003, June 22, 2007, and May 12, 2008, against AIG, certain of its current and former officers and directors, and the underwriters of the offerings. The complaint alleges that defendants made statements in the shelf registration statements, and in annual, quarterly and current filings which were materially false and misleading in violation of Sections 11, 12(a) and 15 of the Securities Act of 1933. The claims are based generally on the same allegations as the securities fraud class actions described above.

On January 15, 2009, a purported securities class action complaint was filed in the Southern District of New York on behalf of purchasers of AIG Medium-Term Notes, Series AIG-FP, which the complaint alleges were offered on a continuous basis from November 17, 2006 through April 10, 2008, against AIG, certain of its current and former officers and directors, and the underwriters of the offerings. The complaint alleges that in connection with the offering materials, defendants failed to disclose information relevant to the creditworthiness of AIG and therefore the value of the notes, making them false and misleading in violation of Sections 11, 12(a) and 15 of the Securities Act of 1933.

On February 27, 2009, AIG s former Chairman and Chief Executive Officer, Maurice R. Greenberg, filed a securities action in the Southern District of New York against AIG and certain of its current and former officers and directors, asserting violations of Sections 10(b) and 20(a) of the Exchange Act of 1934 and a state common law fraud claim based generally on the same allegations as in the securities fraud class actions described above.

On March 20, 2009, the Court consolidated all the securities actions except the Greenberg action as In re American International Group, Inc. Securities Litigation and appointed the State of Michigan Retirement Systems as lead plaintiff.

ERISA Actions Southern District of New York. On June 25, 2008, the Company, certain of its executive officers and directors, and unnamed members of the Company s Retirement Board and Investment Committee were named as defendants in two separate, though nearly identical, actions filed in the Southern District of New York. The actions purport to be brought as class actions on behalf of all participants in or beneficiaries of certain pension plans sponsored by AIG or its subsidiaries (the Plans) during the period May 11, 2007 through the present and whose participant accounts included investments in the Company s common stock. Plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to Plan participants and their beneficiaries under the Employee Retirement Income Security Act of 1974, as amended (ERISA), by: (i) failing to prudently and loyally manage the Plans and the Plans assets; (ii) failing to provide complete and accurate information to participants and beneficiaries about the Company and the value of the Company s stock; (iii) failing to monitor appointed Plan fiduciaries and to provide them with complete and accurate information; and (iv) breaching their duty to avoid conflicts of interest. The alleged ERISA violations relate to, among other things, the defendants purported failure to monitor and/or disclose unrealized market valuation losses on AIGFP s super senior credit

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

default swap portfolio as a result of severe credit market disruption. Six additional purported ERISA class action complaints were subsequently filed in the Southern District of New York, each containing similar allegations.

On March 19, 2009, the Court consolidated the ERISA actions as In re American International Group, Inc. ERISA Litigation II and appointed interim lead plaintiffs.

Derivative Actions Southern District of New York. On November 20, 2007, two purported shareholder derivative actions were filed in the Southern District of New York, naming as defendants the then-current directors of AIG and certain senior officers of AIG and its subsidiaries. Plaintiffs assert claims on behalf of nominal defendant AIG for breach of fiduciary duty, waste of corporate assets and unjust enrichment, as well as violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Section 20(a) of the Exchange Act, among other things, in connection with AIG s public disclosures regarding its exposure to what the lawsuits describe as the subprime market crisis. The actions were consolidated as In re American International Group, Inc. 2007 Derivative Litigation (the Consolidated 2007 Derivative Litigation). On February 15, 2008, plaintiffs filed a consolidated amended complaint alleging the same causes of action. On April 15, 2008, motions to dismiss the action were filed on behalf of all defendants.

On August 6, 2008, a purported shareholder derivative action was filed in the Southern District of New York asserting claims on behalf of AIG based generally on the same allegations as in the consolidated amended complaint in the Consolidated 2007 Derivative Litigation.

On February 11, 2009, the Court approved a stipulation consolidating the derivative litigation filed on August 6, 2008 with the Consolidated 2007 Derivative Litigation, and appointing the Louisiana Municipal Police Employees Retirement System as co-lead plaintiff. The Court also terminated the pending motions to dismiss as moot in light of plaintiffs stated intention to file an amended complaint.

Derivative and Class Action Central District of California. On March 26, 2009, a purported derivative and class action complaint was filed in the United States District Court for the Central District of California purporting to assert claims on behalf of nominal defendant AIG and its shareholders against certain current and former officers and directors of AIG. The claims relate to losses suffered by AIG and its shareholders as a result of AIG s alleged exposure to risks related to the subprime mortgage market in its credit default swap portfolio, and to AIGFP employee retention arrangements. Plaintiffs also allege that defendants misrepresented and omitted material facts during the alleged class period, December 8, 2000 to the present, relating to AIG s consolidated financial condition regarding the true size and scope and the nature of AIG s exposure to risk. The complaint alleges claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment and violations of Section 14(e) of the Exchange Act of 1934.

Derivative Action Supreme Court of New York, Nassau County. On February 29, 2008, a purported shareholder derivative complaint was filed in the Supreme Court of Nassau County naming as defendants the then-current directors of AIG and certain former and present senior officers of AIG and its subsidiaries. Plaintiff asserts claims for breach of fiduciary duty, waste of corporate assets, and unjust enrichment in connection with AIG s public disclosures regarding its exposure to what the complaint describes as the subprime mortgage market. On May 19, 2008, defendants filed a motion to dismiss or to stay the proceedings in light of the pending Consolidated 2007 Derivative Litigation. On March 9, 2009, the Court granted defendants motion to stay the action.

Derivative Action Supreme Court of New York, New York County. On March 20, 2009, a purported shareholder derivative complaint was filed in the Supreme Court of New York County naming as defendants certain of the current directors of AIG and the recipients of payments under the AIGFP Employee Retention Plan. Plaintiffs assert claims on behalf of nominal defendant AIG for breach of fiduciary duty and waste of corporate assets against the directors, and for rescission and constructive trust against the recipients of payments under the AIGFP Employee Retention Plan.

Derivative Actions Delaware Court of Chancery. On September 17, 2008, a purported shareholder derivative complaint was filed in the Court of Chancery of Delaware naming as defendants certain former and present directors and senior officers of AIG and its subsidiaries. Plaintiff asserts claims on behalf of nominal

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(unaudited)   (continued)***

defendant AIG for breach of fiduciary duty, waste of corporate assets, and mismanagement in connection with AIG s public disclosures regarding its exposure to the subprime lending market. On December 19, 2008, a motion to stay or dismiss the action was filed on behalf of defendants. The motion is pending.

On January 15, 2009, a purported shareholder derivative complaint was filed in the Court of Chancery of Delaware naming as defendants certain current directors of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, and asserting claims on behalf of nominal defendant AIGFP. As sole shareholder of AIGFP, AIG was also named as a nominal defendant. Plaintiff asserts claims against Joseph Cassano for breach of fiduciary duty and unjust enrichment. The complaint alleges that Cassano was responsible for losses suffered by AIGFP related to its exposure to subprime-backed credit default swaps and collateralized debt obligations and that he concealed these losses for his own benefit.

Derivative Action   Superior Court for the State of California, Los Angeles County. On April 1, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, asserting claims on behalf of nominal defendant AIG against certain officers and directors of AIG. The complaint asserts claims for waste of corporate assets, breach of fiduciary duty, abuse of control, and unjust enrichment and constructive trust in connection with defendants approval of bonuses and retention payments.

Action by the Starr Foundation   Supreme Court of New York. On May 7, 2008, the Starr Foundation filed a complaint in New York State Supreme Court against AIG, AIG s former Chief Executive Officer, Martin Sullivan, and AIG s then-Chief Financial Officer, Steven Bensinger, asserting a claim for common law fraud. The complaint alleges that the defendants made materially misleading statements and omissions concerning alleged multi-billion dollar losses in AIG s portfolio of credit default swaps. The complaint asserts that if the Starr Foundation had known the truth about the alleged losses, it would have sold its remaining shares of AIG Common Stock and alleges that the Starr Foundation has suffered damages of at least $300 million. On May 30, 2008, a motion to dismiss the complaint was filed on behalf of defendants. After a hearing, the complaint was dismissed. On December 23, 2008, plaintiff filed a notice of appeal.

Canadian Securities Class Action   Ontario Superior Court of Justice. On November 13, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported securities fraud class action against AIG, AIGFP, certain of AIG s current and former officers and directors, and the former Chief Executive Officer of AIGFP. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against AIG. The proposed statement of claim would assert a class period of November 10, 2006 through September 16, 2008, and would allege that during this period defendants made false and misleading statements and omissions in quarterly and annual reports and during oral presentations in violation of the Ontario Securities Act. On January 29, 2009, the Court approved a scheduling order for the respondents motion to dismiss, which will culminate in oral argument from February 1 through 5, 2010.

Panama Action   Tribunal del Circuito Civil, Panama City, Panama. On February 26, 2009, SICO sought permission to file a complaint in Panamanian court against AIG. In the complaint, SICO alleges that AIG intentionally concealed from its shareholders, including SICO, its unstable financial situation and risk of losses, which ultimately resulted in losses to the value of SICO s shares of AIG Common Stock. AIG has not received formal notice of service of the complaint.

2006 Regulatory Settlements and Related Matters

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the DOJ, the SEC, the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). AIG recorded an after-tax charge of $1.15 billion relating to these settlements in the fourth quarter of 2005. The settlements resolved investigations conducted by the SEC, NYAG and DOI in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. These settlements did not, however, resolve investigations by regulators from other states into insurance brokerage practices related to contingent commissions and other broker-related conduct, such as alleged

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited) (continued)*

bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

As a result of these settlements, AIG made payments or placed amounts in escrow in 2006 totaling approximately $1.64 billion, $225 million of which represented fines and penalties. Amounts held in escrow totaling approximately $338 million, including interest thereon, are included in other assets at March 31, 2009. At that date, all of the funds were escrowed for settlement of claims resulting from the underpayment by AIG of its residual market assessments for workers compensation.

In addition to the escrowed funds, $800 million was deposited into a fund under the supervision of the SEC as part of the settlements to be available to resolve claims asserted against AIG by investors, including the securities class action shareholder lawsuits described below.

Also, as part of the settlements, AIG agreed to retain, for a period of three years, an independent consultant to conduct a review that included, among other things, the adequacy of AIG s internal control over financial reporting, the policies, procedures and effectiveness of AIG s regulatory, compliance and legal functions and the remediation plan that AIG has implemented as a result of its own internal review.

Other Regulatory Settlements. AIG s 2006 regulatory settlements with the SEC, DOJ, NYAG and DOI did not resolve investigations by regulators from other states into insurance brokerage practices. AIG entered into agreements effective January 29, 2008 with the Attorneys General of the States of Florida, Hawaii, Maryland, Michigan, Oregon, Texas and West Virginia; the Commonwealths of Massachusetts and Pennsylvania; and the District of Columbia; as well as the Florida Department of Financial Services and the Florida Office of Insurance Regulation, relating to their respective industry-wide investigations into producer compensation and insurance placement practices. The settlements call for total payments of $12.5 million to be allocated among the ten jurisdictions representing restitution to state agencies and reimbursement of the costs of the investigation. During the term of the settlement agreements, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. AIG will also continue to cooperate with the industry-wide investigations. The agreement with the Texas Attorney General also settles allegations of anticompetitive conduct relating to AIG s relationship with Allied World Assurance Company and includes an additional settlement payment of $500,000 related thereto.

AIG entered into an agreement effective March 13, 2008 with the Pennsylvania Insurance Department relating to the Department s investigation into the affairs of AIG and certain of its Pennsylvania-domiciled insurance company subsidiaries. The settlement calls for total payments of approximately $13.5 million, of which approximately $4.4 million was paid under previous settlement agreements. During the term of the settlement agreement, AIG will provide annual reinsurance reports, as well as maintain certain producer compensation disclosure and ongoing compliance initiatives.

NAIC Examination of Workers Compensation Premium Reporting. During 2006, the Settlement Review Working Group of the National Association of Insurance Commissioners (NAIC), under the direction of the states of Indiana, Minnesota and Rhode Island, began an investigation into AIG s reporting of workers compensation premiums. In late 2007, the Settlement Review Working Group recommended that a multi-state targeted market conduct examination focusing on workers compensation insurance be commenced under the direction of the NAIC s Market Analysis Working Group. AIG was informed of the multi-state targeted market conduct examination in January 2008. The lead states in the multi-state examination are Delaware, Florida, Indiana, Massachusetts, Minnesota, New York, Pennsylvania, and Rhode Island. All other states (and the District of Columbia) have agreed to participate in the multi-state examination. To date, the examination has focused on legacy issues related to AIG s writing and reporting of workers compensation insurance between 1985 and 1996. AIG has also been advised that the examination will focus on current compliance with legal requirements applicable to such business. AIG has been advised by the lead states that to date no determinations have been made with respect to these issues, and AIG cannot predict either the outcome of the investigation or provide any assurance regarding regulatory action that may result from the investigation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Securities Action Southern District of New York. Beginning in October 2004, a number of putative securities fraud class action suits were filed in the Southern District of New York against AIG and consolidated as In re American International Group, Inc. Securities Litigation. Subsequently, a separate, though similar, securities fraud action was also brought against AIG by certain Florida pension funds. The lead plaintiff in the class action is a group of public retirement systems and pension funds benefiting Ohio state employees, suing on behalf of themselves and all purchasers of AIG s publicly traded securities between October 28, 1999 and April 1, 2005. The named defendants are AIG and a number of present and former AIG officers and directors, as well as Starr, SICO, General Reinsurance Corporation (General Re), and PricewaterhouseCoopers LLP (PwC), among others. The lead plaintiff alleges, among other things, that AIG: (1) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (2) concealed that it used income smoothing products and other techniques to inflate its earnings; (3) concealed that it marketed and sold income smoothing insurance products to other companies; and (4) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that AIG s former Chief Executive Officer, Maurice R. Greenberg, manipulated AIG s stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, Section 20(a) of the Exchange Act, and Section 20A of the Exchange Act. In April 2006, the court denied the defendants motions to dismiss the second amended class action complaint and the Florida complaint. In December 2006, a third amended class action complaint was filed, which does not differ substantially from the prior complaint. Fact discovery is currently ongoing. On February 20, 2008, the lead plaintiff filed a motion for class certification. The motion remains pending.

Derivative Action Southern District of New York. Between October 25, 2004 and July 14, 2005, seven separate derivative actions were filed in the Southern District of New York, five of which were consolidated into a single action (the New York 2004/2005 Derivative Litigation under Securities Actions Southern District of New York). The complaint in this action contains nearly the same types of allegations made in the securities fraud action described above. The named defendants include current and former officers and directors of AIG, as well as Marsh & McLennan Companies, Inc. (Marsh), SICO, Starr, ACE Limited and subsidiaries (Ace), General Re, PwC, and certain employees or officers of these entity defendants. Plaintiffs assert claims for breach of fiduciary duty, gross mismanagement, waste of corporate assets, unjust enrichment, insider selling, auditor breach of contract, auditor professional negligence and disgorgement from AIG s former Chief Executive Officer, Maurice R. Greenberg, and former Chief Financial Officer, Howard I. Smith, of incentive-based compensation and AIG share proceeds under Section 304 of the Sarbanes-Oxley Act, among others. Plaintiffs seek, among other things, compensatory damages, corporate governance reforms, and a voiding of the election of certain AIG directors. AIG s Board of Directors has appointed a special committee of independent directors (Special Committee) to review the matters asserted in the operative consolidated derivative complaint. The court has entered an order staying this action pending resolution of the Delaware 2004/2005 Derivative Litigation discussed below. The court also has entered an order that termination of certain named defendants from the Delaware action applies to this action without further order of the court. On February 26, 2009, the Court dismissed those AIG officer and director defendants against whom the shareholder plaintiffs in the Delaware action had not pursued claims.

Derivative Actions Delaware Chancery Court. From October 2004 to April 2005, AIG shareholders filed five derivative complaints in the Delaware Chancery Court. All of these derivative lawsuits were consolidated into a single action as In re American International Group, Inc. Consolidated Derivative Litigation (the Delaware 2004/2005 Derivative Litigation). The amended consolidated complaint named 43 defendants (not including nominal defendant

AIG) who, as in the New York 2004/2005 Derivative Litigation, were current and former officers and directors of AIG, as well as other entities and certain of their current and former employees and directors. The factual allegations, legal claims and relief sought in this action are similar to those alleged in the New York 2004/2005 Derivative Litigation, except that the claims are only under state law. In early 2007, the court approved an agreement that AIG be realigned as plaintiff, and, on June 13, 2007, acting on the direction of the Special Committee, AIG filed an amended complaint against former directors and officers Maurice R. Greenberg and Howard I. Smith, alleging breach of fiduciary duty and indemnification. Also on June 13, 2007, the Special Committee filed a motion to terminate the litigation as to certain defendants, while taking no action as to others. Defendants Greenberg and Smith filed answers to AIG s complaint and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

brought third-party complaints against certain current and former AIG directors and officers, PwC and Regulatory Insurance Services, Inc. On September 28, 2007, AIG and the shareholder plaintiffs filed a combined amended complaint in which AIG continued to assert claims against defendants Greenberg and Smith and took no position as to the claims asserted by the shareholder plaintiffs in the remainder of the combined amended complaint. In that pleading, the shareholder plaintiffs are no longer pursuing claims against certain AIG officers and directors. On February 12, 2008, the court granted AIG s motion to stay discovery pending the resolution of claims against AIG in the New York consolidated securities action. On April 11, 2008, the shareholder plaintiffs filed the First Amended Combined Complaint, which added claims against former AIG directors and officers Maurice Greenberg, Edward Matthews, and Thomas Tizzio for breach of fiduciary duty based on alleged bid-rigging in the municipal derivatives market. On June 13, 2008, certain defendants filed motions to dismiss the shareholder plaintiffs portions of the complaint. On February 11, 2009, the court denied the motions to dismiss filed by Maurice Greenberg, Edward Matthews, and Thomas Tizzio; granted the motion to dismiss filed by PwC without prejudice; and granted the motion to dismiss filed by certain former employees of AIG without prejudice for lack of personal jurisdiction. The shareholder plaintiffs application for interlocutory appeal of the dismissal of PwC was denied without prejudice by the Court. The motions to dismiss filed by the remaining parties are pending. On March 6, 2009, the Court granted an Order of Dismissal, Notice and Order of Voluntary Dismissal and Stipulation and Order of Dismissal to dismiss those individual defendants who were similarly situated to the individuals dismissed by the Court for lack of personal jurisdiction. On March 12, 2009, Defendant Greenberg filed his verified answer to AIG s complaint; cross-claims against Marsh, Ace, Gen Re, and Thomas Tizzio; and a third-party complaint against certain current and former AIG directors and officers, as well as INS Regulatory Insurance Services, Inc. Defendant Smith has also filed his answer to AIG s complaint.

AIG is also named as a defendant in a derivative action in the Delaware Chancery Court brought by shareholders of Marsh. On July 10, 2008, shareholder plaintiffs filed a second consolidated amended complaint, which contains claims against AIG for aiding and abetting a breach of fiduciary duty and contribution and indemnification in connection with alleged bid-rigging and steering practices in the commercial insurance market that are the subject of the Policyholder Antitrust and Racketeering Influenced and Corrupt Organizations Act (RICO) Actions described below. On November 10, 2008, AIG and certain defendants filed motions to dismiss the shareholder plaintiffs portions of the complaint. The motions to dismiss are pending.

Derivative Action Supreme Court of New York. On February 11, 2009, shareholder plaintiffs in the Delaware 2004/2005 Derivative Litigation filed a derivative complaint in the Supreme Court of New York against the individual defendants who moved to dismiss the complaint in the Delaware 2004/2005 Derivative Litigation on personal jurisdiction grounds. The defendants include current and former officers and employees of AIG, Marsh, and General Re; AIG is named as a nominal defendant. The complaint in this action contains similar allegations to those made in the Delaware 2004/2005 Derivative Litigation described above. Discovery in this action is stayed pending the resolution of the claims against AIG in the securities actions described above under Securities Actions Southern District of New York.

Policyholder Antitrust and RICO Actions. Commencing in 2004, policyholders brought multiple federal antitrust and RICO class actions in jurisdictions across the nation against insurers and brokers, including AIG and a number of its subsidiaries, alleging that the insurers and brokers engaged in a broad conspiracy to allocate customers, steer business, and rig bids. These actions, including 24 complaints filed in different federal courts naming AIG or an AIG subsidiary as a defendant, were consolidated by the judicial panel on multi-district litigation and transferred to the United States

District Court for the District of New Jersey (District of New Jersey) for coordinated pretrial proceedings. The consolidated actions have proceeded in that court in two parallel actions, In re Insurance Brokerage Antitrust Litigation (the Commercial Complaint) and In re Employee Benefit Insurance Brokerage Antitrust Litigation (the Employee Benefits Complaint, and, together with the Commercial Complaint, the Multi-district Litigation).

The plaintiffs in the Commercial Complaint are a group of corporations, individuals and public entities that contracted with the broker defendants for the provision of insurance brokerage services for a variety of insurance needs. The broker defendants are alleged to have placed insurance coverage on the plaintiffs behalf with a number

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ***(unaudited) (continued)***

of insurance companies named as defendants, including AIG subsidiaries. The Commercial Complaint also named various brokers and other insurers as defendants (three of which have since settled). The Commercial Complaint alleges, among other things, that defendants engaged in a widespread conspiracy to allocate customers through bid-rigging and steering practices. Plaintiffs assert that the defendants violated the Sherman Antitrust Act, RICO, and the antitrust laws of 48 states and the District of Columbia, and are liable under common law breach of fiduciary duty and unjust enrichment theories. Plaintiffs seek treble damages plus interest and attorneys fees as a result of the alleged RICO and Sherman Antitrust Act violations.

The plaintiffs in the Employee Benefits Complaint are a group of individual employees and corporate and municipal employers alleging claims on behalf of two separate nationwide purported classes: an employee class and an employer class that acquired insurance products from the defendants from January 1, 1998 to December 31, 2004. The Employee Benefits Complaint names AIG, as well as various other brokers and insurers, as defendants. The activities alleged in the Employee Benefits Complaint, with certain exceptions, track the allegations made in the Commercial Complaint.

The Court in connection with the Commercial Complaint granted (without leave to amend) defendants motions to dismiss the federal antitrust and RICO claims on August 31, 2007 and September 28, 2007, respectively. The court declined to exercise supplemental jurisdiction over the state law claims in the Commercial Complaint and therefore dismissed it in its entirety. On January 14, 2008, the court granted defendants motion for summary judgment on the ERISA claims in the Employee Benefits Complaint and subsequently dismissed the remaining state law claims without prejudice, thereby dismissing the Employee Benefits Complaint in its entirety. On February 12, 2008, plaintiffs filed a notice of appeal to the United States Court of Appeals for the Third Circuit with respect to the dismissal of the Employee Benefits Complaint. Plaintiffs previously appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit on October 10, 2007. Both appeals are fully briefed and oral argument in both appeals was held on April 21, 2009.

A number of complaints making allegations similar to those in the Multi-district Litigation have been filed against AIG and other defendants in state and federal courts around the country. The defendants have thus far been successful in having the federal actions transferred to the District of New Jersey and consolidated into the Multi-district Litigation. These additional consolidated actions are still pending in the District of New Jersey, but are currently stayed pending a decision by the court on whether they will proceed during the appeal of the dismissal of the Multi-district Litigation. On August 20, 2008, the District Court, however, granted plaintiff s motion to lift the stay in one tag-along matter and suggested that the case be remanded to the transferor court, and on November 26, 2008, the Judicial Panel on Multi-district Litigation issued an order remanding the case to the transferor court. On March 12, 2009, the transferor court held oral argument on the insurer defendants motion to dismiss and granted that motion from the bench. The AIG defendants have also sought to have state court actions making similar allegations stayed pending resolution of the Multi-district Litigation proceeding. These efforts have generally been successful, although discovery has recently commenced in one case pending in New Jersey state court. Plaintiffs in another case pending in Texas state court moved to reopen discovery, and a hearing on that motion was held on April 9, 2008. The court subsequently issued an order deferring a ruling on the motion until a hearing was held on defendants special exceptions, which was held on April 3, 2009. At the April 3, 2009 hearing, the Court sustained defendants special exceptions and granted plaintiff 60 days to replead. The Court also continued the discovery stay. AIG has settled several of the various federal and state actions alleging claims similar to those in the Multi-district Litigation, including a state court action pending in Florida in which discovery had been allowed to proceed.

Ohio Attorney General Action   Ohio Court of Common Pleas. On August 24, 2007, the Ohio Attorney General filed a complaint in the Ohio Court of Common Pleas against AIG and a number of its subsidiaries, as well as several other broker and insurer defendants, asserting violation of Ohio s antitrust laws. The complaint, which is similar to the Commercial Complaint, alleges that AIG and the other broker and insurer defendants conspired to allocate customers, divide markets, and restrain competition in commercial lines of casualty insurance sold through the broker defendant. The complaint seeks treble damages on behalf of Ohio public purchasers of commercial casualty insurance, disgorgement on behalf of both public and private purchasers of commercial casualty insurance, and a $500-per-day penalty for each day of conspiratorial conduct. AIG, along with other co-defendants, moved to

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dismiss the complaint on November 16, 2007. On June 30, 2008, the Court denied defendants motion to dismiss. On August 18, 2008, defendants filed their answers to the complaint. Discovery is ongoing.

Actions Relating to Workers Compensation Premium Reporting Northern District of Illinois. On May 24, 2007, the National Workers Compensation Reinsurance Pool (the NWCRP), on behalf of its participant members, filed a lawsuit in the United States District Court for the Northern District of Illinois against AIG with respect to the underpayment by AIG of its residual market assessments for workers compensation insurance (the NWCRP action). The complaint alleges claims for violations of RICO, breach of contract, fraud and related state law claims arising out of AIG s alleged underpayment of these assessments between 1970 and the present and seeks damages purportedly in excess of $1 billion. On August 6, 2007, the court denied AIG s motion seeking to dismiss or stay the complaint or, in the alternative, to transfer to the Southern District of New York. On December 26, 2007, the court denied AIG s motion to dismiss the complaint. On March 17, 2008, AIG filed an amended answer, counterclaims and third-party claims against the National Council on Compensation Insurance (in its capacity as attorney-in-fact for the NWCRP), the NWCRP, its board members, and certain of the other insurance companies that are members of the NWCRP alleging violations of RICO, as well as claims for conspiracy, fraud, and other state law claims. The counterclaim-defendants and third-party defendants filed motions to dismiss on June 9, 2008. On January 26, 2009, AIG filed a motion to dismiss all claims in the complaint for lack of subject matter jurisdiction. On February 23, 2009, the Court issued a decision and order sustaining AIG s counterclaims and sustaining, in part, AIG s third-party claims. The Court also dismissed certain of AIG s third-party claims without prejudice. On April 13, 2009, third-party defendant Liberty Mutual filed third-party counterclaims against AIG, certain of its subsidiaries, and former AIG executives. The third-party counterclaims are substantially similar to those filed by the NWCRP, but also seek damages related to non-NWCRP states, guaranty funds, and special assessments, in addition to asserting claims for other violations of state law. On April 16, 2009, the Court ordered that all third-party defendants must assert any third-party counterclaims by April 30, 2009. The Court has otherwise stayed the entire case pending a ruling on AIG s motion to dismiss for lack of subject matter jurisdiction, which is scheduled for a ruling on June 10, 2009.

On April 1, 2009, Safeco Insurance Company of America and Ohio Casualty Insurance Company filed a complaint in the United States District Court for the Northern District of Illinois, on behalf of a purported class of all NWCRP participant members, against AIG and certain of its subsidiaries with respect to the underpayment by AIG of its residual market assessments for workers compensation insurance. The complaint is styled as an alternative complaint, should the court grant AIG s motion to dismiss the NWCRP lawsuit for lack of subject-matter jurisdiction. The allegations in the class action complaint are substantially similar to those filed by the NWCRP, but the complaint names former AIG executives as defendants and asserts a RICO claim against those executives. On April 9, 2009, the Court stayed the case pending disposition of AIG s motion to dismiss for lack of subject-matter jurisdiction in the NWCRP lawsuit.

Action Relating to Workers Compensation Premium Reporting District of South Carolina. A purported class action was filed in the United States District Court for the District of South Carolina on January 25, 2008 against AIG and certain of its subsidiaries, on behalf of a class of employers that obtained workers compensation insurance from AIG companies and allegedly paid inflated premiums as a result of AIG s alleged underreporting of workers compensation premiums. An amended complaint was filed on March 24, 2008, and AIG filed a motion to dismiss the amended complaint on April 21, 2008. On July 8, 2008, the court granted AIG s motion to dismiss all claims without prejudice and granted plaintiff leave to refile subject to certain conditions. Plaintiffs filed their second amended complaint on July 22, 2008. AIG moved to dismiss the second amended complaint on August 22, 2008. On March 27, 2009, the court granted AIG s motion to dismiss all claims related to pre-2001 policies and all claims against two AIG subsidiaries but denied the motion to dismiss as to claims against AIG and the remaining subsidiaries. The court also granted AIG s motion to strike certain allegations from the complaint. Limited discovery related to AIG s filed-rate doctrine defense is proceeding and it is expected that certain legal issues related to that defense will be certified to the South Carolina Supreme Court for determination.

Litigation Relating to SICO. In July 2005 SICO filed a complaint against AIG in the Southern District of New York, claiming that AIG had refused to provide SICO access to certain artwork, and asking the court to order AIG immediately to release the property to SICO. AIG filed an answer denying SICO s allegations and setting forth

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defenses to SICO s claims. In addition, AIG filed counterclaims asserting breach of contract, unjust enrichment, conversion, breach of fiduciary duty, a constructive trust and declaratory judgment relating to SICO s breach of its commitment to use its AIG shares only for the benefit of AIG and AIG employees. On June 23, 2008, the Court denied in part and granted in part SICO s motion for summary judgment, and on July 31, 2008 the parties submitted a joint pre-trial order. Trial is scheduled to commence on June 15, 2009.

Litigation Matters Relating to AIG s General Insurance Operations

Caremark. AIG and certain of its subsidiaries have been named defendants in two putative class actions in state court in Alabama that arise out of the 1999 settlement of class and derivative litigation involving Caremark Rx, Inc. (Caremark). The plaintiffs in the second-filed action have intervened in the first-filed action, and the second-filed action has been dismissed. An excess policy issued by a subsidiary of AIG with respect to the 1999 litigation was expressly stated to be without limit of liability. In the current actions, plaintiffs allege that the judge approving the 1999 settlement was misled as to the extent of available insurance coverage and would not have approved the settlement had he known of the existence and/or unlimited nature of the excess policy. They further allege that AIG, its subsidiaries, and Caremark are liable for fraud and suppression for misrepresenting and/or concealing the nature and extent of coverage. In addition, the intervenor-plaintiffs originally alleged that various lawyers and law firms who represented parties in the underlying class and derivative litigation (the Lawyer Defendants) were also liable for fraud and suppression, misrepresentation, and breach of fiduciary duty. The complaints filed by the plaintiffs and the intervenor-plaintiffs request compensatory damages for the 1999 class in the amount of $3.2 billion, plus punitive damages. AIG and its subsidiaries deny the allegations of fraud and suppression and have asserted that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement. AIG and its subsidiaries further assert that the current claims are barred by the statute of limitations and that plaintiffs assertions that the statute was tolled cannot stand against the public disclosure of the excess coverage. The plaintiffs and intervenor-plaintiffs, in turn, have asserted that the disclosure was insufficient to inform them of the nature of the coverage and did not start the running of the statute of limitations. On November 26, 2007, the trial court issued an order that dismissed the intervenors complaint against the Lawyer Defendants and entered a final judgment in favor of the Lawyer Defendants. The matter was stayed pending appeal to the Alabama Supreme Court. In September 2008, the Alabama Supreme Court affirmed the trial court s dismissal of the Lawyer Defendants. After the case was sent back down to the trial court, the intervenor- plaintiffs retained additional counsel the law firm of Haskell Slaughter Young & Rediker, LLC (Haskell Slaughter) and filed an Amended Complaint in Intervention on December 1, 2008. The Amended Complaint in Intervention names only Caremark and AIG and various subsidiaries as defendants and purports to bring claims against all defendants for deceit and conspiracy to deceive. In addition, the Amended Complaint in Intervention purports to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark s alleged deception. The defendants have moved to dismiss the Amended Complaint, and, in the alternative, for a more definite statement. The intervenor-plaintiffs have yet to respond to defendants motion but have indicated to the court that they intend to remedy any defects in their Amended Complaint by filing another amended complaint. After the appearance of the Haskell Slaughter firm on behalf of the intervenor-plaintiffs, the plaintiffs moved to disqualify all of the lawyers for the intervenor-plaintiffs because, among other things, the Haskell Slaughter firm previously represented Caremark. The intervenor-plaintiffs, in turn, moved to disqualify the lawyers for the plaintiffs in the first-filed action. The trial court heard oral argument on the motions to disqualify on February 6, 2009. On March 2, 2009, both sets of plaintiffs filed motions to withdraw their respective motions to disqualify each other after reaching an agreement among themselves that the Laur iello plaintiffs would act as lead counsel. The McArthur intervenors also moved to withdraw their Amended Complaint in Intervention. The trial court granted all motions to withdraw and ordered the parties to appear on March 26, 2009 for a status conference. Before the conference, the McArthur intervenors purported to dismiss their claims against Lauriello with prejudice pursuant to Ala. R. Civ. P. 41. The defendants argued that such dismissal was improper absent Court approval, but the Court approved the dismissal on April 2, 2009. At a class action scheduling conference held on April 14, 2009, the Court established a schedule for class action discovery that will lead to a hearing on class certification in March 2010.

(b) Commitments

Flight Equipment

At March 31, 2009, ILFC had committed to purchase 150 new aircraft, deliverable from 2009 through 2019, at an estimated aggregate purchase price of $15.7 billion. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

Included in the 150 new aircraft are 74 Boeing 787 aircraft (B787s), with the first aircraft currently scheduled to be delivered in July 2012. Boeing has made several announcements concerning delays in the deliveries of the B787s and ILFC is in discussion with Boeing related to potential delay compensation and penalties for which ILFC may be eligible. ILFC has signed leases for 31 of the 74 B787s on order. Under the terms of ILFC s B787 leases, the lessees may be entitled to share in any compensation which ILFC receives from Boeing for late delivery of the aircraft.

Other Commitments

In the normal course of business, AIG enters into commitments to invest in limited partnerships, private equities, hedge funds and mutual funds and to purchase and develop real estate in the U.S. and abroad. These commitments totaled $8.9 billion at March 31, 2009.

On June 27, 2005, AIG entered into an agreement pursuant to which AIG agreed, subject to certain conditions, to make any payment that is not promptly paid with respect to the benefits accrued by certain employees of AIG and its subsidiaries under the SICO Plans (as discussed in (c) below under Benefits Provided by Starr International Company, Inc. and C.V. Starr & Co., Inc.).

(c) Contingencies

Liability for unpaid claims and claims adjustment expense

Although AIG regularly reviews the adequacy of the established liability for unpaid claims and claims adjustment expense, there can be no assurance that AIG s ultimate liability for unpaid claims and claims adjustment expense will not develop adversely and materially exceed AIG s current liability for unpaid claims and claims adjustment expense. Estimation of ultimate net claims, claims adjustment expenses and liability for unpaid claims and claims adjustment expense is a complex process for long-tail casualty lines of business, which include excess and umbrella liability, directors and officers liability (D&O), professional liability, medical malpractice, workers compensation, general liability, products liability and related classes, as well as for asbestos and environmental exposures. Generally, actual historical loss development factors are used to project future loss development. However, there can be no assurance that future loss development patterns will be the same as in the past. Moreover, any deviation in loss cost trends or in loss development factors might not be discernible for an extended period of time subsequent to the recording of the initial loss reserve estimates for any accident year. Thus, there is the potential for reserves with respect to a number of years to be significantly affected by changes in loss cost trends or loss development factors that were relied upon in setting the reserves. These changes in loss cost trends or loss development factors could be attributable to changes in inflation, in labor and material costs or in the judicial environment, or in other social or economic phenomena affecting claims.

Benefits Provided by Starr International Company, Inc. and C.V. Starr & Co., Inc.

SICO has provided a series of two-year Deferred Compensation Profit Participation Plans (SICO Plans) to certain AIG employees. The SICO Plans were created in 1975 when the voting shareholders and Board of Directors of SICO, a private holding company whose principal asset is AIG common stock, decided that a portion of the capital value of SICO should be used to provide an incentive plan for the current and succeeding managements of all American International companies, including AIG.

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None of the costs of the various benefits provided under the SICO Plans has been paid by AIG, although AIG has recorded a charge to reported earnings for the deferred compensation amounts paid to AIG employees by SICO, with an offsetting amount credited to additional paid-in capital reflecting amounts considered to be contributed by SICO. The SICO Plans provide that shares currently owned by SICO are set aside by SICO for the benefit of the participant and distributed upon retirement. The SICO Board of Directors currently may permit an early payout of units under certain circumstances. Prior to payout, the participant is not entitled to vote, dispose of or receive dividends with respect to such shares, and shares are subject to forfeiture under certain conditions, including but not limited to the participant s voluntary termination of employment with AIG prior to normal retirement age. Under the SICO Plans, SICO s Board of Directors may elect to pay a participant cash in lieu of shares of AIG common stock. Following notification from SICO to participants in the SICO Plans that it will settle specific future awards under the SICO Plans with shares rather than cash, AIG modified its accounting for the SICO Plans from variable to fixed measurement accounting. AIG gave effect to this change in settlement method beginning on December 9, 2005, the date of SICO s notice to participants in the SICO Plans.

(d) Guarantees

AIG has issued unconditional guarantees with respect to the prompt payment, when due, of all present and future payment obligations and liabilities of AIGFP arising from transactions entered into by AIGFP.

SAI Deferred Compensation Holdings, Inc., a wholly owned subsidiary of AIG, has established a deferred compensation plan for registered representatives of certain AIG subsidiaries, pursuant to which participants have the opportunity to invest deferred commissions and fees on a notional basis. The value of the deferred compensation fluctuates with the value of the deferred investment alternatives chosen. AIG has provided a full and unconditional guarantee of the obligations of SAI Deferred Compensation Holdings, Inc. to pay the deferred compensation under the plan. In December 2008, AIG terminated the plan for current employees and ceased to permit new deferrals into the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

10. Employee Benefits

The components of the net periodic benefit cost with respect to pensions and other postretirement benefits were as follows:

	Pensions			Postretirement		
	Non U.S. Plans	U.S. Plans	Total	Non U.S. Plans	U.S. Plans	Total
			(In millions)			
Three Months Ended March 31, 2009						
Components of net periodic benefit cost:						
Service cost	**$ 31**	**$ 41**	**$ 72**	**$ 3**	**$ 3**	**$ 6**
Interest cost	**16**	**55**	**71**	**1**	**4**	**5**
Expected return on assets	**(9)**	**(55)**	**(64)**			
Amortization of prior service credit	**(3)**		**(3)**			
Amortization of net actuarial losses	**11**	**24**	**35**			
Curtailment gain					**(3)**	**(3)**
Settlement loss	**3**		**3**			
Net periodic benefit cost	**$ 49**	**$ 65**	**$ 114**	**$ 4**	**$ 4**	**$ 8**
Three Months Ended March 31, 2008						
Components of net periodic benefit cost:						
Service cost	$ 24	$ 32	$ 56	$ 2	$ 2	$ 4
Interest cost	14	50	64	1	4	5
Expected return on assets	(11)	(60)	(71)			
Amortization of prior service credit	(3)		(3)			
Amortization of net actuarial losses	4	4	8			
Net periodic benefit cost	$ 28	$ 26	$ 54	$ 3	$ 6	$ 9

In connection with the sale of HSB on March 31, 2009, AIG recognized in income as part of the net gain from the sale, a net settlement gain of $57 million due to the transfer of certain HSB-sponsored pension plans in the first quarter.

As of the end of the first quarter of 2009, AIG has contributed approximately $468 million to its U.S. and non-U.S. pension plans and expects to contribute an additional $132 million during 2009. Such subsequent 2009 contributions will depend, however, on various factors, including AIG s liquidity, asset dispositions, market performance and management discretion.

11. Federal Income Taxes

Interim Period Tax Assumptions and Effective Tax Rates

AIG is unable to make a reliable estimate of the annual effective tax rate for 2009 due to the significant variations in the customary relationship between income tax expense and pre-tax accounting income or loss; consequently, the actual effective tax rate for the interim period is being utilized.

The effective tax rate on the pre-tax loss for the three-month period ended March 31, 2009 was 19.4 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to a $1.6 billion increase in the valuation allowance to $22.5 billion against a portion of AIG s net deferred tax assets, partially offset by $587 million of deferred tax benefits mainly attributable to the book to tax basis differences of AIG parent s investment in subsidiaries and other discrete period items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

The effective tax rate on the pre-tax loss for the three-month period ended March 31, 2008 was 31.4 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to $703 million of tax charges comprised of increases in the reserves for uncertain tax positions and other discrete period items.

Valuation Allowances on Deferred Tax Assets

At March 31, 2009 and December 31, 2008, AIG recorded a net deferred tax asset after valuation allowance of $14.3 billion and $11.0 billion, respectively. The increase in the net deferred tax asset of $3.3 billion includes $1.6 billion of deferred taxes attributable to Other comprehensive loss. The remaining increase results from the tax benefit of $3.3 billion on the operating loss offset by an increase in the valuation allowance of $1.6 billion. FAS 109, Accounting for Income Taxes, permits this asset to be recorded if the asset meets a more likely than not standard (i.e., more than 50 percent likely) that the asset will be realized. Realization of AIG s net deferred tax asset depends on AIG s ability to consummate the proposed AIA and ALICO debt for equity exchanges with the FRBNY and to generate sufficient future taxable income of the appropriate character within carryforward periods of the jurisdictions in which the net operating and capital losses, tax credits and deductible temporary differences were incurred. Estimates of future taxable income could change in the near term, perhaps materially, which may require AIG to adjust its valuation allowance. Such adjustment, either positive or negative, could be material to AIG s consolidated financial condition or its results of operations.

When making its assessment about the realization of its deferred tax assets at March 31, 2009, AIG considered all available evidence, including (i) the nature, frequency, and severity of current and cumulative financial reporting losses, (ii) actions completed through April 30, 2009 and additional actions expected to be completed during the remainder of 2009, (iii) the carryforward periods for the net operating and capital loss and foreign tax credit carryforwards, (iv) the sources and timing of future taxable income, giving greater weight to discrete sources and to earlier future years in the forecast period, and (v) tax planning strategies that would be implemented, if necessary, to accelerate taxable amounts.

At March 31, 2009, AIG has a deferred tax asset related to stock compensation of $226 million. Due to the significant decline in AIG s stock price, these deferred tax assets may not be realizable in the future. FAS 123(R), Share-Based Payments, precludes AIG from recognizing an impairment charge on these assets until the related stock awards are exercised, vested or expired. Any charge associated with the deferred tax asset would likely be reflected in additional paid in capital rather than in income tax expense.

Tax Litigation

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

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At March 31, 2009 and December 31, 2008, AIG s unrecognized tax benefits, excluding interest and penalties, were $3.4 billion. At March 31, 2009 and December 31, 2008, AIG s unrecognized tax benefits included $667 million and

$665 million, respectively, related to tax positions the disallowance of which would not affect the effective tax rate. Accordingly, at March 31, 2009 and December 31, 2008, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $2.7 billion.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At March 31, 2009 and December 31, 2008, AIG had accrued $417 million and $426 million, respectively, for the payment of interest (net of the federal benefit) and penalties.

AIG continually evaluates adjustments proposed by taxing authorities. At March 31, 2009, such proposed adjustments would not result in a material change to AIG s consolidated financial condition, although it is possible that the effect could be material to AIG s consolidated results of operations for an individual reporting period. Although it is reasonably possible that a significant change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

12. Information Provided in Connection With Outstanding Debt

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

In addition, AIG Liquidity Corp. and AIG Program Funding, Inc. are both wholly owned subsidiaries of AIG. AIG provides a full and unconditional guarantee of all obligations of AIG Liquidity Corp. and AIG Program Funding, Inc. There are no reportable amounts for these entities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Condensed Consolidating Balance Sheet

	American International Group, Inc. (As Guarantor)	AIGLH	Other Subsidiaries	Eliminations	Consolidated AIG
			(In millions)		
March 31, 2009					
Assets:					
Investments*(a)*	$ 13,204	$	$ 742,005	$ (145,078)	$ 610,131
Loans to subsidiaries*(b)*	69,429		(69,429)		
Cash	139		3,890		4,029
Investment in consolidated subsidiaries*(b)*	61,384	22,387	12,802	(96,573)	
Debt issuance costs, including prepaid commitment asset of $14,636	14,933				14,933
Other assets	15,049	2,698	173,006	(88)	190,665
Total assets	$ 174,138	$ 25,085	$ 862,274	$ (241,739)	$ 819,758
Liabilities:					
Insurance liabilities	$	$	$ 490,326	$ (159)	$ 490,167
Federal Reserve Bank of New York credit facility	47,405				47,405
Other long-term debt	46,578	2,097	235,108	(143,985)	139,798
Other liabilities*(a)*	34,396	3,156	50,131	483	88,166
Total liabilities	128,379	5,253	775,565	(143,661)	765,536
Redeemable noncontrolling interest in partially owned consolidated subsidiaries			1,013		1,013
Total AIG shareholders equity	45,759	19,832	77,407	(97,239)	45,759
Noncontrolling interest			8,289	(839)	7,450
Total equity	45,759	19,832	85,696	(98,078)	53,209
Total liabilities and equity	$ 174,138	$ 25,085	$ 862,274	$ (241,739)	$ 819,758

December 31, 2008					
Assets:					
Investments*(a)*	$ 16,110	$	$ 753,181	$ (132,379)	$ 636,912
Loans to subsidiaries*(b)*	64,283		(64,283)		
Cash	103		8,539		8,642
Investment in consolidated subsidiaries*(b)*	65,724	23,256	34,499	(123,479)	
Debt issuance costs, including prepaid commitment asset of $15,458	15,743				15,743
Other assets	11,707	2,626	185,095	(307)	199,121
Total assets	$ 173,670	$ 25,882	$ 917,031	$ (256,165)	$ 860,418
Liabilities:					
Insurance liabilities	$	$	$ 503,171	$ (103)	$ 503,068
Federal Reserve Bank of New York credit facility	40,431				40,431
Other long-term debt	47,928	2,097	234,701	(131,954)	152,772
Other liabilities*(a)*	32,601	3,063	64,804	953	101,421
Total liabilities	120,960	5,160	802,676	(131,104)	797,692
Redeemable noncontrolling interest in partially owned consolidated subsidiaries			1,921		1,921
Total AIG shareholders equity	52,710	20,722	103,489	(124,211)	52,710
Noncontrolling interest			8,945	(850)	8,095
Total equity	52,710	20,722	112,434	(125,061)	60,805
Total liabilities and equity	$ 173,670	$ 25,882	$ 917,031	$ (256,165)	$ 860,418

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Condensed Consolidating Statement of Operations

	American International Group, Inc. (as Guarantor)	AIGLH	Other Subsidiaries	Eliminations	Consolidated AIG
			(In millions)		
Three Months Ended March 31, 2009					
Operating loss	**$ (2,934)**	**$ (29)**	**$ (3,405)**	**$**	**$ (6,368)**
Equity in undistributed net income (loss) of consolidated subsidiaries*(a)*	**(2,598)**	**(1,022)**		**3,620**	
Dividend income from consolidated subsidiaries*(a)*	**226**			**(226)**	
Income tax expense (benefit)*(b)*	**(953)**	**(8)**	**(274)**		**(1,235)**
Net loss	**(4,353)**	**(1,043)**	**(3,131)**	**3,394**	**(5,133)**
Less: Net loss attributable to noncontrolling interest			**(780)**		**(780)**
Net loss attributable to AIG	**$ (4,353)**	**$ (1,043)**	**$ (2,351)**	**$ 3,394**	**$ (4,353)**
Three Months Ended March 31, 2008					
Operating loss	$ (833)	$ (21)	$ (10,410)	$	$ (11,264)
Equity in undistributed net income (loss) of consolidated subsidiaries*(a)*	(7,754)	(1,246)		9,000	
Dividend income from consolidated subsidiaries*(a)*	749			(749)	
Income tax expense (benefit)*(b)*	(33)	(3)	(3,501)		(3,537)
Net loss	(7,805)	(1,264)	(6,909)	8,251	(7,727)
Less: Net income attributable to noncontrolling interest			78		78
Net loss attributable to AIG	$ (7,805)	$ (1,264)	$ (6,987)	$ 8,251	$ (7,805)

(a) Eliminated in consolidation.

(b) The net tax benefit recorded on AIG parent includes an increase in the valuation allowance of $959 million against a portion of the consolidated AIG deferred tax assets as well as deferred tax benefits mainly attributable to the book to tax basis differences of AIG parent s investment in subsidiaries and other discrete items. The net tax benefit recorded on other subsidiaries also includes an increase in the valuation allowance of $674 million against a portion of the consolidated AIG deferred tax assets. See Note 11 for additional information.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Condensed Consolidating Statement of Cash Flows

	American International Group, Inc. (as Guarantor)	AIGLH	Other Subsidiaries	Consolidated AIG
	(In millions)			
Three Months Ended March 31, 2009				
Net cash (used in) provided by operating activities	$ (856)	$	$ 4,854	$ 3,998
Cash flows from investing activities:				
Invested assets disposed	4,081		33,351	37,432
Invested assets acquired	(3,119)		(27,193)	(30,312)
Loans to subsidiaries net	(4,254)		4,254	
Other	(2,355)		(4,207)	(6,562)
Net cash (used in) provided by investing activities	(5,647)		6,205	558
Cash flows from financing activities:				
Federal Reserve Bank of New York credit facility borrowings	10,900			10,900
Repayment of Federal Reserve Bank of New York credit facility Borrowings	(4,600)			(4,600)
Issuance of long-term debt			1,209	1,209
Repayments of long-term debt	(561)		(5,392)	(5,953)
Other	800		(11,354)	(10,554)
Net cash (used in) provided by financing activities	6,539		(15,537)	(8,998)
Effect of exchange rate changes on cash			(171)	(171)
Change in cash	36		(4,649)	(4,613)
Cash at beginning of period	103		8,539	8,642
Cash at end of period	$ 139	$	$ 3,890	$ 4,029
Three Months Ended March 31, 2008				
Net cash (used in) provided by operating activities	$ 1,170	$ 557	$ 6,572	$ 8,299
Cash flows from investing:				

Invested assets disposed	400		43,325	43,725
Invested assets acquired	(1,463)		(40,818)	(42,281)
Other	3,007	(58)	(756)	2,193
Net cash (used in) provided by investing activities	1,944	(58)	1,751	3,637
Cash flows from financing activities:				
Issuance of long-term debt	214		12,345	12,559
Repayments of long-term debt	(28)		(19,880)	(19,908)
Payments advanced to purchase shares	(1,000)			(1,000)
Cash dividends paid to shareholders	(498)			(498)
Other	(1,612)	(500)	(830)	(2,942)
Net cash (used in) provided by financing activities	(2,924)	(500)	(8,365)	(11,789)
Effect of exchange rate changes on cash			58	58
Change in cash	190	(1)	16	205
Cash at beginning of period	84	1	2,199	2,284
Cash at end of period	$ 274	$	$ 2,215	$ 2,489

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)* *(continued)*

Condensed Consolidating Statement of Cash Flows (Continued)

Supplementary disclosure of cash flow information:

Three Months Ended March 31,	**2009**	**2008**
	(In millions)	
Intercompany non-cash financing/investing activities:		
Other non-cash capital contributions to subsidiaries	**$ 146**	$ 451

During the second quarter of 2008, AIG made certain revisions to the American International Group, Inc. (as Guarantor) Condensed Statement of Cash Flows, primarily relating to the effect of reclassifying certain intercompany and securities lending balances. Accordingly, AIG revised the previous periods presented to conform to the revised presentation. There was no effect on the Consolidated Statement of Cash Flows or ending cash balances.

The revisions and their effect on the American International Group, Inc. (as Guarantor) Condensed Statement of Cash Flows for the three months ended March 31, 2008 were as follows:

	Originally Reported March 31, 2008	**Revisions**	**As Revised**
		(In millions)	
Cash flows provided by (used in) operating activities	$ 504	$ 666	$ 1,170
Cash flows provided by (used in) investing activities	2,608	(664)	1,944
Cash flows provided by (used in) financing activities	(2,922)	(2)	(2,924)

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

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

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents may include, and AIG s officers and representatives may from time to time make, projections and statements which may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These projections and statements are not historical facts but instead represent only AIG s belief regarding future events, many of which, by their nature, are inherently uncertain and outside AIG s control. These projections and statements may address, among other things, the outcome of the recently completed and proposed transactions with the Federal Reserve Bank of New York (FRBNY) and the United States Department of the Treasury (Department of the Treasury), the number, size, terms, cost and timing of dispositions and their potential effect on AIG s businesses, financial condition, results of operations, cash flows and liquidity (and AIG at any time and from time to time may change its plans with respect to the sale of one or more businesses), AIG s exposures to subprime mortgages, monoline insurers and the residential and commercial real estate markets, the separation of AIG s businesses from AIG parent company, AIG s ability to retain and motivate its employees and AIG s strategy for growth, product development, market position, financial results and reserves. It is possible that AIG s actual results and financial condition will differ, possibly materially, from the anticipated results and financial condition indicated in these projections and statements. Factors that could cause AIG s actual results to differ, possibly materially, from those in the specific projections and statements include a failure of the completed transactions with the FRBNY or the Department of the Treasury to achieve their desired objectives or a failure to complete the proposed transactions with the FRBNY, developments in global credit markets and such other factors as discussed throughout this Management s Discussion and Analysis of Financial Condition and Results of Operations and in Item 1A. Risk Factors of this Quarterly Report on Form 10-Q and Item 1A. Risk Factors of AIG s Annual Report on Form 10-K for the year ended December 31, 2008 (as amended, the 2008 Annual Report on Form 10-K). AIG is not under any obligation (and expressly disclaims any obligation) to update or alter any projection or other statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise.

In addition to reviewing AIG s results for the three-month period ended March 31, 2009, this Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) supplements and updates the information and discussion included in the 2008 Annual Report on Form 10-K to reflect developments in or affecting AIG s business to date during 2009. Throughout this MD&A, AIG presents its operations in the way it believes will be most meaningful. Statutory underwriting profit (loss) is presented in accordance with accounting principles prescribed by insurance regulatory authorities because these are standard measures of performance used in the insurance industry and thus allow more meaningful comparisons with AIG s insurance competitors. AIG also uses cross-references to additional information included in this Quarterly Report on Form 10-Q and in the 2008 Annual Report on Form 10-K to assist readers seeking related information on a particular subject.

Overview

Operations

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

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

Consideration of AIG s Ability to Continue as a Going Concern

In the 2008 Annual Report on Form 10-K, management disclosed the conditions and events that led management to conclude that AIG would have adequate liquidity to finance and operate AIG s businesses, execute its asset disposition plan and repay its obligations for at least the next twelve months. At that time, the United States government issued the following statement referring to the March 2009 agreements in principle and other transactions they expected to undertake with AIG to strengthen its capital position, enhance its liquidity, reduce its borrowing costs and facilitate AIG s asset disposition program.

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

In connection with the preparation of this Quarterly Report on Form 10-Q, management assessed whether AIG had the ability to continue as a going concern. See Note 1 to the Consolidated Financial Statements. In making this assessment, AIG considered:

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

The liquidity events in the second half of 2008, including transactions with the FRBNY and the Department of the Treasury;

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

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

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

The additional capital provided to AIG by the Department of the Treasury;

Recently completed transactions with the FRBNY and the Department of the Treasury;

The planned sales of significant subsidiaries;

The continuing liquidity issues in AIG s businesses and AIG s actions to address such issues; and

The substantial risks to which AIG is subject.

Each of these items is discussed in more detail below.

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

It is possible that the actual outcome of one or more of management s plans could be materially different or that one or more of management s significant judgments or estimates about the potential effects of the risks and uncertainties could prove to be materially incorrect or that the principal transactions discussed below are not consummated. If one or more of these possible outcomes is realized, AIG may need additional U.S. government support to meet its obligations as they come due.

Capital Resources and Liquidity

Liquidity

Liquidity Events in the Second Half of 2008

In the second half of 2008, AIG experienced an unprecedented strain on liquidity. The two principal causes of the liquidity strain were demands for the return of cash collateral under the U.S. securities lending program and collateral calls on AIGFP s super senior multi-sector collateralized debt obligation (CDO) credit default swap portfolio. Both of these liquidity strains were significantly exacerbated by the downgrades of AIG s long-term debt ratings by Standard & Poor s, a division of the McGraw Hill Companies, Inc. (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch) on September 15, 2008. This strain led to a series of transactions with the FRBNY and the Department of the Treasury. See the 2008 Annual Report on Form 10-K for a complete discussion of these agreements, which are outlined below.

FRBNY Credit Agreement

Issuance of AIG s Series D Fixed Rate Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series D Preferred Stock)

Termination of $62 billion of credit default swaps

Resolution of U.S. Securities Lending Program

AIG Affiliates Participation in FRBNY s Commercial Paper Funding Facility (CPFF)

Issuance of AIG s Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (AIG Series C Preferred Stock). See Note 7 to the Consolidated Financial Statements for discussion of the issuance of the AIG Series C Preferred Stock.

2009 Completed and Proposed Transactions

Exchange of AIG Series D Preferred Stock for AIG Series E Preferred Stock

On April 17, 2009, AIG entered into a Securities Exchange Agreement (the Series E Exchange Agreement) with the Department of the Treasury pursuant to which, among other things, the Department of the Treasury exchanged 4,000,000 shares of AIG Series D Preferred Stock for 400,000 shares of AIG s Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series E Preferred Stock), with an aggregate liquidation preference of $41,604,576,000, which represents the issuance-date aggregate liquidation preference of the AIG Series D Preferred Stock surrendered plus accumulated but unpaid dividends thereon. The terms of the AIG Series E Preferred Stock are substantially the same as those of the AIG Series D Preferred Stock, except that the dividends are not cumulative, the liquidation preferences per share differ, and the AIG Series E Preferred Stock is subject to a replacement capital covenant. Concurrently with the exchange of the shares of AIG Series D Preferred Stock for shares of the AIG Series E Preferred Stock, AIG entered into a replacement capital covenant in favor of the holders of a series of AIG debt, pursuant to which AIG agreed that prior to the third anniversary of the issuance of the AIG Series E Preferred Stock, AIG will not redeem or purchase, and no subsidiary of AIG will purchase, all or any part of the AIG Series E Preferred Stock except with the proceeds obtained from the issuance by AIG or any subsidiary of AIG of certain capital securities.

The Series E Exchange Agreement also permits the Department of the Treasury, under certain circumstances, to exchange the warrant received in connection with the issuance of the AIG Series D Preferred Stock (AIG Series D Warrant) for 53,798,766 shares of the AIG Series C Preferred Stock.

Issuance of AIG Series F Preferred Stock and Entry into $29.835 billion Department of the Treasury Commitment

On April 17, 2009, AIG entered into a Securities Purchase Agreement (the Series F Purchase Agreement) with the Department of the Treasury pursuant to which, among other things, AIG issued to the Department of the Treasury (i) 300,000 shares of AIG s Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (AIG Series F Preferred Stock), and (ii) a warrant (AIG Series F Warrant) to purchase 3,000 shares of AIG s common stock, par value $2.50 per share (AIG Common Stock).

Pursuant to the Series F Purchase Agreement, the Department of the Treasury has committed for five years to provide immediately available funds (the Department of the Treasury Commitment) in an amount up to $29.835 billion (the Available Amount) so long as:

AIG is not a debtor in a pending case under Title 11 of the United States Code; and

the Trust (or any successor entity established for the sole benefit of the United States Treasury) and the Department of the Treasury, in the aggregate, beneficially owns more than 50 percent of the aggregate voting power of AIG s voting securities.

The Available Amount will be decreased by the aggregate amount of financial assistance that the Department of the Treasury provides to AIG, its subsidiaries or any special purpose vehicle established by or for the benefit of AIG or any of its subsidiaries after the issuance of the AIG Series F Preferred Stock and the AIG Series F Warrant, unless otherwise specified by the Department of the Treasury, in its sole discretion, under the terms of such financial assistance.

The Series E Exchange Agreement and the Series F Purchase Agreement restrict AIG s ability to repurchase capital stock and require AIG to continue to maintain policies limiting corporate expenses, lobbying activities and executive compensation.

The terms of the AIG Series F Preferred Stock are substantially the same as the AIG Series E Preferred Stock, except that the liquidation preferences per share differ and the AIG Series F Preferred Stock is not subject to a replacement capital covenant. The liquidation preference of the AIG Series F Preferred Stock is initially $0 per share and will be increased pro rata by the amount of each drawdown of the Department of the Treasury Commitment.

The AIG Series F Warrant is exercisable, at any time, at an initial exercise price of $0.000001 per share. The AIG Series F Warrant will not be subject to any contractual restrictions on transfer other than such as are necessary to ensure compliance with U.S. federal and state securities laws. The Department of the Treasury has agreed that it will not exercise any voting rights with respect to the AIG Common Stock issued upon exercise of the Series F Warrant.

Modification to the FRBNY Facility

On April 17, 2009, AIG and the FRBNY entered into Amendment No. 3 to the FRBNY Credit Agreement. The FRBNY Credit Agreement was amended, among other things, to:

- remove the minimum 3.5 percent LIBOR borrowing rate floor; and
- permit the issuance by AIG of the AIG Series E Preferred Stock, the AIG Series F Preferred Stock and the AIG Series F Warrant to the Department of the Treasury.

Repayment of the FRBNY Facility with Subsidiary Preferred Equity

On March 2, 2009, AIG and the Board of Governors of the Federal Reserve System announced their intent to enter into transactions pursuant to which AIG will transfer to the FRBNY preferred equity interests in newly formed special purpose vehicles (SPVs). Each SPV will hold (directly or indirectly) 100 percent of the common stock of an AIG operating subsidiary (American International Assurance Company, Limited, together with American International Assurance Company (Bermuda) Limited (AIA) in one case and American Life Insurance Company (ALICO) in the other). In exchange for the preferred equity interests received by the FRBNY, there would be a concurrent substantial reduction in the outstanding balance and maximum available amount to be borrowed under the FRBNY Facility.

Securitizations

On March 2, 2009, AIG and the Board of Governors of the Federal Reserve System announced their intent to enter into a transaction pursuant to which AIG will issue to the FRBNY senior certificates in one or more newly-formed SPVs to be repaid with the net cash flows from designated blocks of existing life insurance policies in settlement of a portion of the outstanding balance of the FRBNY Facility. The amount of the FRBNY Facility reduction will be based on the proceeds received. The SPVs are expected to be consolidated by AIG.

Liquidity Position

At April 29, 2009, AIG had outstanding borrowings under the FRBNY Facility of $42.6 billion, with a remaining borrowing capacity of $17.4 billion, and accrued compounding interest and fees totaled $4.3 billion. At April 30, 2009, AIG had not drawn any amounts under the Department of the Treasury Commitment, and therefore had additional capacity to draw up to $29.835 billion thereunder.

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

	Inception Through December 31, 2008	March 31, 2009	Increase (Decrease)
		(In millions)	
Net borrowings:			
Loans to AIGFP for collateral postings, GIA and other debt maturities	$ 46,997	**$ 51,347**	$ 4,350
AIGFP repayments to AIG	(4,093)	**(7,304)**	(3,211)
Capital contributions and loans to insurance companies*(a)*	20,850	**23,041**	2,191
Repayment of obligations to securities lending program	3,160	**3,160**	
Repayment of intercompany loans	1,528	**1,528**	
Contributions to AIGCFG subsidiaries	1,672	**1,694**	22
Loans to ILFC		**1,700**	1,700
Debt payments	2,109	**2,869**	760
Funding of equity interest in ML III	5,000	**5,000**	
Repayment from the proceeds of the issuance of Series D Preferred Stock and common stock warrant	(40,000)	**(40,000)**	
Other*(b)*	(423)	**65**	488
Net borrowings	36,800	**43,100**	6,300
Total FRBNY Facility	60,000	**60,000**	
Remaining available amount	23,200	**16,900**	(6,300)
Net borrowings	36,800	**43,100**	6,300
Accrued compounding interest and fees*(c)*	3,631	**4,305**	674
Total balance outstanding	$ 40,431	**$ 47,405**	$ 6,974

(a) Includes securities lending activities.

(b) Includes repayments from funds received from the securities lending agreement, dated as of October 8, 2008, between certain of AIG s domestic life insurance subsidiaries and the FRBNY (the FRBNY Securities Lending Agreement) and the Commercial Paper Funding Facility (the CPFF).

(c) Excludes interest payable of $8 million and $9 million at December 31, 2008 and March 31, 2009, respectively, which was included in Other liabilities.

Additional sources of liquidity for AIG are detailed in Liquidity of Parent and Subsidiaries below.

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

Future Cash Requirements

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

	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009 (In millions)	First Quarter 2010	Total
AIG	$ 116	$ 4	$ 1,000	$ 888	$ 2,008
AIG MIP	1,151			500	1,651
AIGFP	655	2,001	1,025	1,147	4,828
ILFC*(a)*	1,104	1,161	2,992	700	5,957
AGF*(b)*	931	3,209	1,662	659	6,461
Other subsidiaries	345	112	273	59	789
Total	$ 4,302	$ 6,487	$ 6,952	$ 3,953	$ 21,694

(a) International Lease Finance Corporation.

(b) American General Finance, Inc.

In addition, at April 29, 2009, AIG affiliates had $12.3 billion of commercial paper outstanding under the CPFF, including $4.9 billion issued by AIG Funding, Inc. (AIG Funding), with the majority of maturities in July 2009. If AIG s short-term ratings are downgraded, AIG Funding may lose access to the CPFF and would be required to find other sources to fund the maturing commercial paper.

AIG expects to meet these obligations primarily through borrowings from the FRBNY Facility and the cash flows, including from dispositions, of assets supporting these obligations. Debt maturities for the Matched Investment Program (MIP) are expected to be funded through cash flows generated by the sale or financing of the asset portfolios in the program. Approximately $3.4 billion of AIGFP s debt maturities through March 31, 2010 are fully collateralized with assets backing the corresponding liabilities. It is expected that American General Finance, Inc. (AGF) and International Lease Finance Corporation (ILFC) will require support from AIG, in addition to their cash flows from operations and proceeds from asset sales and securitizations, to meet their existing obligations. AIG intends to provide such support through May 15, 2010.

In the first three months of 2009, AIG made capital contributions of $1.25 billion to certain of its Domestic Life Insurance & Retirement Services companies. If a substantial portion of the Domestic Life Insurance & Retirement Services bond portfolio diminishes significantly in value or suffers credit events, AIG may need to provide additional capital support for these operations.

In addition, AIG made capital contributions of $641 million to its Domestic General Insurance companies in the first three months of 2009. AIG does not anticipate making additional capital contributions to the Domestic General Insurance companies.

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

Asset Disposition Plan

Since October 2008, when AIG originally announced a restructuring plan under which AIG s Life Insurance & Retirement Services operations and certain other businesses would be divested in whole or in part, AIG has sold certain businesses and assets and has entered into contracts to sell others. However, global market conditions have continued to deteriorate, posing risks to AIG s ability to divest assets at acceptable values. As announced on March 2, 2009, AIG s restructuring plan has evolved in response to these market conditions. Specifically, AIG s current plans involve transactions between AIG and the FRBNY with respect to AIA and ALICO. Additionally, AIG announced its plans to create an independent entity by transferring AIG s U.S. property and casualty and foreign general insurance businesses into a special purpose vehicle in preparation for the potential sale of a minority stake.

AIG believes that these current plans are necessary to maximize the value of its businesses over a longer time frame. Therefore, some businesses that have previously been prepared for sale will be divested, some will be held for later divestiture, and some businesses will be prepared for potential offerings to the public. Dispositions of certain businesses will be subject to regulatory approval. Proceeds from these dispositions, to the extent they do not represent required capital of AIG s insurance company subsidiaries, are contractually required to be applied toward the repayment of the FRBNY Facility as mandatory prepayments.

In connection with AIG s asset disposition plan, through April 30, 2009, AIG had sold, or entered into contracts to sell, the following operations:

On November 26, 2008, AIG closed the sale of its 50 percent stake in the Brazilian joint venture Unibanco AIG Seguros S.A. to AIG s joint-venture partner Unibanco-União de Bancos Brasileiros S.A.

On December 18, 2008, AIG closed the sale of the assets of its Taiwan Finance business to Taiwan Acceptance Corporation.

On March 12, 2009, AIG closed the sale of AIG PhilAm Savings Bank, PhilAm Auto Financing and Leasing, and PFL Holdings to EastWest Banking Corporation.

On March 31, 2009, AIG closed the sale of HSB Group, Inc. (HSB), the parent company of the Hartford Steam Boiler Inspection and Insurance Company, to Munich Re Group.

On April 1, 2009, AIG closed the sale of AIG Life Insurance Company of Canada to BMO Financial Group.

On April 8, 2009, AIG closed the sale of AIG Retail Bank Public Company Limited and AIG Card (Thailand) to Bank of Ayudhya.

On April 16, 2009, AIG closed the sale of AIG Private Bank Ltd. to Aabar Investments PJSC.

On April 16, 2009, AIG entered into a contract to sell 21st Century Insurance Group to Farmers Group, Inc. This sale is expected to close in the third quarter of 2009.

On April 24, 2009, AIG closed the sale of Deutsche Versicherungs-und Rückversicherungs-Aktiengesellschaft (Darag), a German general insurance subsidiary of AIG subsidiary Württembergische und Badische Versicherungs-AG(WüBa) in Germany, to Augur.

These nine operations had total assets and liabilities with carrying values of approximately $19.7 billion and $15.9 billion, respectively, at March 31, 2009. Aggregate total proceeds from the sale of these nine businesses, including proceeds applied to repay intercompany loan facilities, are expected to be $4.6 billion. These nine transactions are expected to generate $2.2 billion of net cash proceeds.

AIG expects to divest its Institutional Asset Management businesses consisting of investment services that are offered to external clients. These businesses offered for sale exclude those providing traditional fixed income and shorter duration asset and liability management for AIG s insurance company subsidiaries as well as proprietary real estate and private equity investments and the MIP. The separation of these asset management businesses will require the establishment of shared service arrangements between the remaining asset management businesses and those that are sold as well as the establishment of new asset management contracts, which will be determined in conjunction with the buyers of these businesses. AIG expects to continue relationships with the divested businesses for other investment management services used by certain AIG subsidiaries.

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

AIG continually evaluates overall market conditions, performance of businesses that are for sale, and market and business performance of competitors and likely bidders for their assets. This evaluation informs decision-making about the timing and process of putting businesses up for sale. Depending on market and business conditions, as noted above, AIG can modify its sales approach to maximize value for AIG and the U.S. taxpayers in the disposition process. Such a modification could result in the sale of additional or other assets.

Liquidity of Parent and Subsidiaries

AIG (Parent Company)

At April 29, 2009, AIG parent had the following sources of liquidity:

- $17.4 billion of available borrowings under the FRBNY Facility;
- $1.94 billion of available commercial paper borrowings under the CPFF;
- $445 million of cash and short-term investments; and
- $29.835 billion of available capacity under the Department of the Treasury Commitment.

As a result, AIG believes that it has sufficient liquidity at the parent level to meet its obligations through at least the next twelve months. However, no assurance can be given that AIG s cash needs will not exceed projected amounts. Additional collateral calls at AIGFP, a further downgrade of AIG s credit ratings or unexpected capital or liquidity needs of AIG s subsidiaries may result in significant additional cash needs. For a further discussion of this risk, see Item 1A. Risk Factors in the 2008 Annual Report on Form 10-K.

Since the fourth quarter of 2008, AIG has not had access to its traditional sources of long-term or short-term financing through the public debt markets. Further, in light of AIG s current common stock price, AIG does not expect to be able to issue equity securities in the public markets in the foreseeable future.

Historically AIG depended on dividends, distributions, and other payments from subsidiaries to fund payments on its obligations. In light of AIG s current financial situation, many of its regulated subsidiaries are restricted from making dividend payments, or advancing funds, to AIG (see Item 1A. Risk Factors in the 2008 Annual Report on Form 10-K). As a result, AIG has been dependent on the FRBNY Facility, the CPFF and other transactions with the FRBNY and the Department of the Treasury as its primary sources of liquidity. Primary uses of cash flow are for debt service and subsidiary funding. In the three-month period ended March 31, 2009, AIG parent collected $281 million in dividends and other payments from subsidiaries (primarily from insurance company subsidiaries), and retired $381 million of debt, excluding MIP and Series AIGFP debt. Excluding MIP and Series AIGFP debt, AIG parent made interest payments totaling $366 million, and made $2.51 billion in net capital contributions to subsidiaries.

AIG parent funds a portion of its short-term working capital needs through commercial paper issued by AIG Funding. Since October 2008, all commercial paper issuance for AIG Funding has been through the CPFF program. As of March 31, 2009, AIG Funding had $5.5 billion of commercial paper outstanding with an average maturity of 27 days, of which $14 million were non-CPFF borrowings.

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

AIG s long-term unsecured debt and Equity Units have been trading at levels significantly below their face value. AIG continuously evaluates the possibility of repurchasing its long-term unsecured debt and Equity Units and may engage, with the consent of the FRBNY and the Department of the Treasury, in public or privately negotiated debt or Equity Unit repurchases in the future.

General Insurance

AIG currently expects that its General Insurance subsidiaries will be able to continue to meet their obligations as they come due through cash from operations and, to the extent necessary, asset dispositions. One or more large catastrophes, however, may require AIG to provide additional support to the affected General Insurance operations. In addition, further downgrades in AIG s credit ratings could put pressure on the insurer financial strength ratings of these subsidiaries. A downgrade in the insurer financial strength ratings of an insurance company subsidiary could result in non-renewals or cancellations by policyholders and adversely affect these companies ability to meet their own obligations and require that AIG provide capital or liquidity support to them. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity in the 2008 Annual Report on Form 10-K.

At March 31, 2009, General Insurance had liquidity in the form of cash and short-term investments of $12.1 billion. These are consolidated cash and short-term investments for a number of legal entities within General Insurance. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 96.3 percent of General Insurance total fixed income investments at March 31, 2009. Given the size and liquidity profile of AIG s General Insurance investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. AIG s asset/liability management process takes into account the expected maturity of investments and the specific nature and risk profile of liabilities. Historically, there has been no significant variation between the expected maturities of AIG s General Insurance investments and the payment of claims.

Life Insurance & Retirement Services

At March 31, 2009, Life Insurance & Retirement Services had liquidity in the form of cash and short-term investments of $33.4 billion. These are consolidated cash and short-term investments for a number of legal entities within Life Insurance & Retirement Services. Generally, these assets are not transferable across various legal entities; however, there are generally sufficient cash and short-term investments within those legal entities such that they can meet their individual liquidity needs. In the event additional liquidity is required, management believes it can provide such liquidity through sale of a portion of its substantial holdings in government and corporate bonds as well as equity securities. Government and corporate bonds represented 85.6 percent of Life Insurance & Retirement Services total fixed income investments at March 31, 2009. Given the size and liquidity profile of AIG s Life Insurance & Retirement Services investment portfolios, AIG believes that deviations from its projected claim experience do not constitute a significant liquidity risk. The Life Insurance & Retirement Services subsidiaries have been able to meet liquidity needs, even during the period of higher surrenders which was experienced from mid-September 2008 through March 31, 2009, and expect to be able to do so in the foreseeable future.

However, due to the significant decline in the value of the bond portfolio of the Life Insurance & Retirement Services subsidiaries, AIG has provided capital to support to these operations. A significant increase in policy surrenders and withdrawals, which could be triggered by a variety of factors, including AIG-specific concerns, could result in a substantial liquidity strain. Other potential events causing a liquidity strain could include economic collapse of a nation or region significant to Life Insurance & Retirement Services operations, nationalization, catastrophic terrorist acts, pandemics or other economic or political upheaval.

Foreign Life Insurance Companies

AIG s Foreign Life Insurance companies (including ALICO) had significant capital needs following publicity of AIG parent s liquidity issues, related credit ratings downgrades and the decline in the equity markets. During the three months ended March 31, 2009, AIG provided funding of $300 million to the Foreign Life Insurance companies.

AIG believes that its Foreign Life Insurance subsidiaries have adequate capital to support their business plans through 2009. However, to the extent the investment portfolios of the Foreign Life Insurance companies continue to be adversely affected by market conditions, AIG may need to lend or contribute additional capital to these companies. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity in the 2008 Annual Report on Form 10-K.

Domestic Life Insurance and Domestic Retirement Services Companies

During the three months ended March 31, 2009, AIG contributed capital totaling $1.25 billion to certain of its Domestic Life Insurance and Domestic Retirement Services subsidiaries to replace a portion of the capital lost as a result of net realized capital losses (primarily resulting from other-than-temporary impairment charges). Further capital contributions will be required to maintain desired levels of capital to the extent the investment portfolios of the Domestic Life Insurance and Domestic Retirement Services companies continue to be adversely affected by market conditions.

The most significant potential liquidity need of AIG s Domestic Life Insurance and Domestic Retirement Services companies is the funding of surrenders. A substantial increase in surrender activity could place stress on the liquidity of these companies and require asset sales or contributions from AIG. At the current rate of surrenders, AIG believes that its Domestic Life Insurance and Domestic Retirement Services companies will have sufficient resources to meet these obligations. However, AIG may need to inject additional capital to offset statutory other-than-temporary impairment charges for the Domestic Life Insurance and Domestic Retirement Services companies. For a discussion of AIG s potential inability to support its subsidiaries, see Item 1A. Risk Factors Liquidity in the 2008 Annual Report on Form 10-K.

Financial Services

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

ILFC

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

During the first quarter of 2009, ILFC was unable to borrow in the public debt markets and, due to downgrades in its short-term credit rating, lost access to the CPFF and therefore borrowed $1.7 billion from AIG Funding to repay its maturing debt and other contractual obligations. ILFC is pursuing secured financings from banks and manufacturers. ILFC has the capacity under its present facilities and indentures to enter into secured financing of approximately $5.0 billion (or more through subsidiaries that qualify as non-restricted subsidiaries under ILFC s indentures, subject to the receipt of any required consents under the FRBNY Facility and under its bank facilities and terms loans). If ILFC does not receive sufficient secured financing, AIG expects that ILFC s current borrowings and future cash flows from operations, which may include aircraft sales, will be inadequate to permit ILFC to meet its existing obligations. Therefore, AIG intends to provide support to ILFC through May 15, 2010.

As a result of Moody s downgrade of ILFC s long-term debt rating to Baa2 on March 17, 2009, ILFC needs written consent from the security trustee of its 2004 ECA Facility before it can fund Airbus purchases under the facility. ILFC financed eight aircraft under the facility during the first quarter of 2009, two of which required written consent, which was obtained. ILFC s current credit ratings also require segregation of security deposits and maintenance reserves related to aircraft funded under both its 1999 and 2004 ECA Facilities into separate accounts. At March 31, 2009, ILFC had segregated approximately $265 million of deposits and maintenance reserves. The amount of funds segregated fluctuates with changes in the related deposits, maintenance reserves and debt maturities. Further downgrades would impose additional restrictions under the 1999 and 2004 ECA Facilities, including the requirement to segregate rental payments and to receive prior consent to withdraw funds from the segregated accounts.

AIGFP

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

In the second half of 2008, AIGFP s access to its traditional sources of liquidity was significantly reduced and it relied on AIG parent to meet most of its liquidity needs. AIGFP s asset backed commercial paper conduit, Curzon Funding LLC, was accepted into the CPFF with a total borrowing limit of $7.2 billion, and had approximately $6.3 billion outstanding at April 29, 2009. Separately, a structured investment vehicle sponsored, but not consolidated, by AIGFP, Nightingale Finance LLC, was also accepted into the CPFF with a borrowing limit of $1.1 billion. As of April 29, 2009, this vehicle had issued approximately $1.1 billion under the CPFF.

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

For the Three Months Ended March 31, 2009	**Collateral Posted as of December 31, 2008**	**Additional Postings**	**Collateral Returned by Counterparties**	**Collateral Posted as of March 31, 2009**
		(In millions)		
Collateralized GIAs and other borrowings	$ 9,401	$ 124	$ 1,736	$ 7,789
Derivatives (including super senior credit default swaps)	22,791	3,611	1,626	24,776
Total	$ 32,192	$ 3,735	$ 3,362	$ 32,565

AGF

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

AGF anticipates that, going forward, its primary source of funds to support its operations and repay its obligations will be customer receivable collections. In order to improve cash flow from operations, AGF has significantly limited its lending activities and aggressively managed its expenses. In addition, AGF is considering potential sales or securitization of its finance receivables. AIG intends to provide support to AGF through May 15, 2010. With AIG s continued support, AIG believes that AGF will have adequate funds to meet its debt and other obligations payable during the next twelve months.

AIGCFG

AIG believes that the funding needs of AIGCFG have stabilized, but it is possible that renewed customer and counterparty concerns could substantially increase AIGCFG s liquidity needs in 2009. Through April 15, 2009, AIG has completed the sale of certain AIGCFG businesses in Taiwan, Thailand and the Philippines.

Asset Management

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

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

Debt

Total debt was as follows:

	March 31, 2009	December 31, 2008
	(In millions)	
Debt issued by AIG:		
FRBNY Facility (secured)	**$ 47,405**	$ 40,431
Notes and bonds payable	**11,221**	11,756
Junior subordinated debt	**11,520**	11,685
Junior subordinated debt attributable to equity units	**5,880**	5,880
Loans and mortgages payable	**370**	416
MIP matched notes and bonds payable	**13,953**	14,446
Series AIGFP matched notes and bonds payable	**4,296**	4,660
Total AIG debt	**94,645**	89,274
Debt guaranteed by AIG:		
AIGFP, at fair value		
Commercial paper*(a)*	**6,747**	6,802
GIAs	**10,716**	13,860
Notes and bonds payable	**3,538**	5,250
Loans and mortgages payable	**1,981**	2,175
Hybrid financial instrument liabilities	**1,257**	2,113
Total AIGFP debt	**24,239**	30,200
AIG Funding commercial paper*(a)*	**5,509**	6,856
AIGLH notes and bonds payable	**798**	798
Liabilities connected to trust preferred stock	**1,299**	1,415
Total debt issued or guaranteed by AIG	**126,490**	128,543
Debt not guaranteed by AIG:		
ILFC		
Commercial paper*(a)*	**2**	1,748
Junior subordinated debt	**999**	999
Notes and bonds payable, ECA Facilities and bank financings*(b)*	**29,343**	30,047
Total ILFC debt	**30,344**	32,794

AGF		
Commercial paper and extendible commercial notes	**58**	188
Junior subordinated debt	**349**	349
Notes and bonds payable	**22,129**	23,089
Total AGF debt	**22,536**	23,626
AIGCFG		
Commercial paper	**122**	124
Loans and mortgages payable	**1,270**	1,596
Total AIGCFG debt	**1,392**	1,720
Other subsidiaries	**639**	670
Debt of consolidated investments held through:		
AIG Investments	**1,312**	1,300
AIG Global Real Estate Investment	**4,485**	4,545
AIG SunAmerica	**5**	5
Total debt of consolidated investments	**5,802**	5,850
Total debt not guaranteed by AIG	**60,713**	64,660
Total debt:		
Total commercial paper and extendible commercial notes	**196**	613
Federal Reserve Bank of New York commercial paper funding facility	**12,242**	15,105
Total long-term debt	**174,765**	177,485
Total debt	**$ 187,203**	$ 193,203

(a) *Includes borrowings of $6.7 billion and $5.5 billion for AIGFP (through Curzon Funding LLC, AIGFP s asset-backed commercial paper conduit) and AIG Funding, respectively, under the CPFF at March 31, 2009 and $6.8 billion, $6.6 billion and $1.7 billion, respectively, for AIGFP (through Curzon Funding LLC, AIGFP s asset-backed commercial paper conduit), AIG Funding and ILFC, respectively, under the CPFF at December 31, 2008.*

(b) *Includes borrowings under the 1999 and 2004 ECA Facilities of $2.6 billion and $2.4 billion at March 31, 2009 and December 31, 2008, respectively.*

Long-Term Debt

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

Three Months Ended March 31, 2009	Balance at December 31, 2008	Issuances	Maturities and Repayments	Effect of Foreign Exchange	Other Non-Cash Changes*	Balance at March 31, 2009
			(In millions)			
AIG						
FRBNY Facility	$ 40,431	$ 10,900	$ (4,600)	$	$ 674	**$ 47,405**
Notes and bonds payable	11,756		(381)	(69)	(85)	**11,221**
Junior subordinated debt	11,685			(165)		**11,520**
Junior subordinated debt attributable to equity units	5,880					**5,880**
Loans and mortgages payable	416		(37)	(9)		**370**
MIP matched notes and bonds payable	14,446			(13)	(480)	**13,953**
Series AIGFP matched notes and bonds payable	4,660		(181)		(183)	**4,296**
AIGFP, at fair value						
GIAs	13,860	146	(1,768)		(1,522)	**10,716**
Notes and bonds payable and hybrid financial instrument liabilities	7,363	9	(906)		(1,671)	**4,795**
Loans and mortgages payable	2,175		(55)		(139)	**1,981**
AIGLH notes and bonds payable	798					**798**
Liabilities connected to trust preferred stock	1,415				(116)	**1,299**
ILFC notes and bonds payable, ECA Facilities and bank financings	30,047	328	(917)	(117)	2	**29,343**
ILFC junior subordinated debt	999					**999**
AGF notes and bonds payable	23,089		(856)	(71)	(33)	**22,129**
AGF junior subordinated debt	349					**349**
AIGCFG loans and mortgages payable	1,596	574	(774)	(126)		**1,270**
Other subsidiaries	670		(28)	(3)		**639**
Total	$ 171,635	$ 11,957	$ (10,503)	$ (573)	$ (3,553)	**$ 168,963**

* *Includes $674 million of accrued compounding interest and fees on the FRBNY Facility and a decline of $3.4 billion in the fair value of AIGFP debt.*

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

At March 31, 2009	Total	Remainder of 2009	2010	2011	Year Ending 2012	2013	2014	Thereafter
				(In millions)				
AIG:								
FRBNY Facility	$ 47,405	$	$	$	$	$ 47,405	$	$
Notes and bonds payable	11,221	1,000	1,350	517	27	998		7,329
Junior subordinated debt	11,520							11,520
Junior subordinated debt attributable to equity units	5,880							5,880
Loans and mortgages payable	370				325			45
MIP matched notes and bonds payable	13,953	1,151	2,129	3,061	2,069	834	372	4,337
Series AIGFP matched notes and bonds payable	4,296	120	38	27	56	3		4,052
Total AIG	94,645	2,271	3,517	3,605	2,477	49,240	372	33,163
AIGFP, at fair value:								
GIAs	10,716	889	704	300	330	315	693	7,485
Notes and bonds payable	3,538	1,563	723	129	402	40	76	605
Loans and mortgages payable	1,981	1,050	298	183	181	73	142	54
Hybrid financial instrument liabilities	1,257	179	180	143	58	206	119	372
Total AIGFP	17,492	3,681	1,905	755	971	634	1,030	8,516
AIGLH notes and bonds payable	798		500					298
Liabilities connected to trust preferred stock	1,299							1,299
ILFC*(a)*:								

Notes and bonds payable	19,166	2,408	4,002	4,380	3,572	3,542	1,042	220
Junior subordinated debt	999							999
ECA Facilities*(b)*	2,624	384	433	345	316	316	310	520
Bank financings	7,553	2,465	2,103	2,835	150			
Total ILFC	30,342	5,257	6,538	7,560	4,038	3,858	1,352	1,739
AGF*(a)*:								
Notes and bonds payable	22,129	5,802	4,101	3,127	2,078	2,067	382	4,572
Junior subordinated debt	349							349
Total AGF	22,478	5,802	4,101	3,127	2,078	2,067	382	4,921
AIGCFG Loans and mortgages payable*(a)*	1,270	727	435	28	30	33	10	7
Other subsidiaries*(a)*	639	3	3	5	4	3	5	616
Total	$ 168,963	$ 17,741	$ 16,999	$ 15,080	$ 9,598	$ 55,835	$ 3,151	$ 50,559

(a) AIG does not guarantee these borrowings.

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

<u>*AIG (Parent Company)*</u>

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

As of March 31, 2009, approximately $7.3 billion principal amount of senior notes were outstanding under AIG s medium-term note program, of which $3.2 billion was used for AIG s general corporate purposes, $714 million was used by AIGFP (included within Series AIGFP matched notes and bonds payable in the preceding tables) and $3.4 billion was used to fund the MIP. The maturity dates of these notes range from 2009 to

2052. To the extent considered appropriate, AIG may enter into swap transactions to manage its effective borrowing rates with respect to these notes.

As of March 31, 2009, the equivalent of $11.1 billion of notes were outstanding under AIG s Euro medium-term note program, of which $9.2 billion were used to fund the MIP and the remainder was used for AIG s general corporate purposes. The aggregate amount outstanding includes a $47 million gain resulting from foreign exchange translation into U.S. dollars, including a $112 million gain related to notes issued by AIG for general corporate purposes and a $65 million loss related to notes issued to fund the MIP. AIG has economically hedged the currency exposure arising from its foreign currency denominated notes.

AIGFP

Approximately $3.4 billion of AIGFP s debt maturing through March 31, 2010 is fully collateralized with assets backing the corresponding liabilities. However, mismatches in the timing of cash inflows on the assets and outflows with respect to the liabilities may require assets to be sold to satisfy maturing liabilities. Depending on market conditions and AIGFP s ability to sell assets at that time, proceeds from sales may not be sufficient to satisfy the full amount due on maturing liabilities. Any shortfalls would need to be funded by AIG parent.

ILFC

ILFC has a $4.3 billion 1999 ECA Facility that was used in connection with the purchase of 62 Airbus aircraft delivered through 2001. This facility is guaranteed by various European Export Credit Agencies. The interest rate varies from 5.77 percent to 5.86 percent on these amortizing ten-year borrowings depending on the delivery date of the aircraft. At March 31, 2009, ILFC had 50 loans with a remaining principal balance of $312 million outstanding under this facility. Thirteen of these loans with a remaining principal balance of $26 million were paid off on April 1, 2009. The debt is collateralized by a pledge of the shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility.

ILFC has a similarly structured 2004 ECA Facility for up to a maximum of $3.6 billion to fund Airbus aircraft to be delivered through May 31, 2009. The facility becomes available as the various European Export Credit Agencies provide their guarantees for aircraft based on a forward-looking calendar, and the interest rate is determined through a bid process. The interest rates are either LIBOR based with spreads ranging from (0.04) percent to 1.25 percent or at fixed rates ranging from 4.20 percent to 4.71 percent. At March 31, 2009, ILFC had $2.3 billion outstanding under this facility. At March 31, 2009, the interest rate of the loans outstanding ranged from 1.73 percent to 4.71 percent. The debt is collateralized by a pledge of shares of a subsidiary of ILFC, which holds title to the aircraft financed under the facility. Borrowings with respect to these facilities are included in ILFC s notes and bonds payable in the preceding table of borrowings.

At March 31, 2009, the total funded amount of ILFC s bank financings was $7.6 billion, which includes $6.5 billion of revolving credit facilities (see Revolving Credit Facilities below). The fundings mature through February 2012. The interest rates are LIBOR-based, with spreads ranging from 0.25 percent to 1.63 percent. At March 31, 2009, the interest rates ranged from 1.52 percent to 2.88 percent. AIG does not guarantee any of the debt obligations of ILFC.

AGF

As of March 31, 2009, notes and bonds aggregating $22.1 billion were outstanding with maturity dates ranging from 2009 to 2031 at interest rates ranging from 0.30 percent to 9.00 percent. To the extent considered appropriate, AGF may enter into swap transactions to manage its effective borrowing rates with respect to these notes and bonds.

AIG does not guarantee any of the debt obligations of AGF but has provided a capital support agreement for the benefit of AGF s lenders under the AGF 364-Day Syndicated Facility. Under this support agreement, AIG has agreed to cause AGF to maintain (1) consolidated net worth of $2.2 billion and (2) an adjusted tangible leverage ratio of less than or equal to 8 to 1 at the end of each fiscal quarter.

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Revolving Credit Facilities

AIG, ILFC and AGF maintain committed, unsecured revolving credit facilities listed on the table below in order to support their respective commercial paper programs and for general corporate purposes. Some of the facilities, as noted below, contain a term-out option allowing for the conversion by the borrower of any outstanding loans at expiration into one-year term loans.

Both ILFC and AGF have drawn the full amount available under their revolving credit facilities. AIG s syndicated facilities contain a covenant requiring AIG to maintain total shareholders equity (calculated on a consolidated basis consistent with accounting principles generally accepted in the United States of America (GAAP)) of at least $50 billion at all times. AIG calculates total shareholders equity for this purpose as the amount shown as Total equity on the Consolidated Balance Sheet in accordance with FAS 160. If AIG fails to maintain this level of total shareholders equity at any time, it will lose access to those facilities. Additionally, if an event of default occurs under those facilities, including AIG failing to maintain $50 billion of total shareholders equity at any time, which causes the banks to terminate either of those facilities, then AIG may be required to collateralize approximately $2.7 billion of letters of credit that AIG has obtained for the benefit of its insurance subsidiaries so that these subsidiaries may obtain statutory recognition of their intercompany reinsurance transactions.

At March 31, 2009			**Available**		**One-Year Term-Out**
Facility (In millions)	**Size**	**Borrower(s)**	**Amount**	**Expiration**	**Option**
AIG:					
364-Day Syndicated Facility*(a)*	$ 2,125	AIG/AIG Funding*(b)*	$ 2,125	July 2009	Yes
5-Year Syndicated Facility*(a)*	1,625	AIG/AIG Funding*(b)*	1,625	July 2011	No
Total AIG	$ 3,750		$ 3,750		
ILFC:					
5-Year Syndicated Facility	$ 2,500	ILFC	$	October 2011	No
5-Year Syndicated Facility	2,000	ILFC		October 2010	No
5-Year Syndicated Facility	2,000	ILFC		October 2009	No
Total ILFC	$ 6,500		$		
AGF:					
364-Day Syndicated Facility	$ 2,450	American General Finance Corporation	$	July 2009	Yes
		American General Finance, Inc.*(c)*			
5-Year Syndicated Facility	2,125	American General Finance Corporation		July 2010	No

Total AGF	$ 4,575	$

(a) *On October 5, 2008, Lehman Brothers Holdings Inc. (LBHI), the parent company of Lehman Brothers Bank, FSB (LBB), filed for bankruptcy protection. LBB is a lender under AIG s 364-Day Syndicated Facility and 5-Year Syndicated Facility and had committed to provide $100 million and $42.5 million, respectively, under these facilities. While LBB is not included in the LBHI bankruptcy filing, AIG cannot be certain whether LBB would fulfill its commitments under these facilities.*

(b) *Guaranteed by AIG.*

(c) *AGF is an eligible borrower for up to $400 million only.*

Credit Ratings

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

	Short-Term Debt			Senior Long-Term Debt		
	Moody s	**S&P**	**Fitch**	**Moody s*(a)***	**S&P*(b)***	**Fitch*(c)***
AIG	P-1 (1st of 3)*(f)*	A-1 (1st of 8)*(f)*	F1 (1st of 5)	A3 (3rd of 9)*(f)*	A- (3rd of 8)*(f)*	A (3rd of 9)
AIG Financial Products Corp.*(d)*	P-1*(f)*	A-1*(f)*		A3*(f)*	A-*(f)*	
AIG Funding, Inc.*(d)*	P-1*(f)*	A-1	F1			
ILFC	P-2 (2nd of 3)*(f)*	A-2(2nd of 8)*(e)*	F1*(g)*	Baa2 (5th of 9)*(f)*	BBB+(4th of 8)*(e)*	A*(g)*
American General Finance Corporation	P-2*(f)*	B (4th of 8)	F1*(g)*	Baa2*(f)*	BB+(5th of 8)*(f)*	BBB(4th of 9)*(g)*
American General Finance, Inc.	P-2*(f)*	B (4th of 8)	F1*(g)*			BBB*(g)*

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

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

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

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

(e) Credit Watch Negative.

(f) Negative Outlook.

(g) Rating Watch Evolving.

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

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

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

The actual amount of collateral that AIGFP would be required to post to counterparties in the event of such downgrades, or the aggregate amount of payments that AIG could be required to make, depends on market conditions, the fair value of outstanding affected transactions and other factors prevailing at the time of the downgrade. For the effect of a downgrade in AIG s credit ratings, see Note 6 to the Consolidated Financial Statements.

Contractual Obligations

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

At March 31, 2009	Total Payments	Remainder of 2009	2010 2011	2012 2013	2014	Thereafter
			Payments Due by Period (In millions)			
Borrowings*(a)*	$ 121,558	$ 17,741	$ 32,079	$ 18,028	$ 3,151	$ 50,559
FRBNY Facility	47,405			47,405		
Interest payments on borrowings	79,158	6,275	15,897	13,813	3,017	40,156
Loss reserves*(b)*	87,405	15,208	26,047	14,509	4,720	26,921
Insurance and investment contract liabilities*(c)*	621,685	20,192	38,257	41,892	21,088	500,256
GIC liabilities*(d)*	14,773	5,776	2,012	3,080	124	3,781
Aircraft purchase commitments	15,704	2,013	490	2,917	1,791	8,493
Other long-term obligations	507	192	290	11	1	13
Total*(e)(f)*	$ 988,195	$ 67,397	$ 115,072	$ 141,655	$ 33,892	$ 630,179

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

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

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

(d) *Represents guaranteed maturities under GICs.*

(e) *Does not reflect unrecognized tax benefits of $3.4 billion, the timing of which is uncertain.*

(f) *The majority of AIGFP s credit default swaps require AIGFP to provide credit protection on a designated portfolio of loans or debt securities. At March 31, 2009, the fair value derivative liability was $6.7 billion relating to AIGFP s super senior multi-sector CDO credit default swap portfolio, net of amounts realized in extinguishing derivative obligations. Due to the long-term maturities of these credit default swaps, AIG is unable to make reasonable estimates of the periods during which any payments would be made. However, AIGFP has posted collateral of $6.2 billion with respect to these swaps (prior to offsets for other transactions).*

Off Balance Sheet Arrangements and Commercial Commitments

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

		Amount of Commitment Expiration				
At March 31, 2009	**Total Amounts Committed**	**Remainder of 2009**	**2010 2011**	**2012 2013**	**2014**	**Thereafter**
			(In millions)			
Guarantees:						
Liquidity facilities*(a)*	$ 883	$	$	$ 771	$	$ 112
Standby letters of credit	1,441	1,258	34	18		131
Construction guarantees*(b)*	105					105
Guarantees of indebtedness	527	2	124	19	164	218
All other guarantees	2,297	48	46	188	51	1,964
Investment commitments*(c)*	8,931	2,349	2,937	2,058	1,247	340
Commitments to extend credit	478	125	299	52		2
Letters of credit	248	167	81			
Other commercial commitments*(d)*	743	60				683
Total*(e)*	$ 15,653	$ 4,009	$ 3,521	$ 3,106	$ 1,462	$ 3,555

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

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

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

(d) Includes options to acquire aircraft. Excludes commitments with respect to pension plans. The annual pension contribution for 2009 is expected to be approximately $600 million for U.S. and non-U.S. plans.

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

Arrangements with Variable Interest Entities

AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business. AIG s insurance companies are involved with VIEs primarily as passive investors in debt securities (rated and unrated) and equity interests issued by VIEs. Through its Financial Services and Asset Management operations, AIG has participated in arrangements that included designing and structuring entities (including VIEs), warehousing and managing the collateral of the entities (including VIEs), entering into insurance transactions with VIEs. Interest holders in the VIEs generally have recourse only to the assets and cash flows of the VIEs and do not have recourse to AIG, except, in limited circumstances, when AIG has provided a guarantee to the VIEs interest holders.

Under FIN 46(R), AIG consolidates a VIE when it is the primary beneficiary of the entity. The primary beneficiary is the party that either (i) absorbs a majority of the VIE s expected losses; (ii) receives a majority of the VIE s expected residual returns; or (iii) both. For a further discussion of AIG s involvement with VIEs, see Note 5 to the Consolidated Financial Statements.

Outlook

General disruptions in the global equity and credit markets and the liquidity issues at AIG have negatively affected the results of each of AIG s operating segments as discussed below. As AIG implements the proposed transactions with the FRBNY and the Department of the Treasury described in Note 1 to the Consolidated Financial Statements and executes its plans for repaying the FRBNY Facility, AIG expects to incur significant additional restructuring-related charges, such as accelerated amortization of the prepaid commitment asset and, potentially, the write-off of intangible assets. Further, if AIG continues to incur losses in its businesses, AIG may need to write off material amounts of goodwill and deferred tax assets.

Almost all of AIG s businesses were adversely affected in the first quarter of 2009 by the criticism and negative publicity that surrounded the payment of retention awards to employees of AIGFP. For a discussion of the effect that continued or renewed criticism or additional negative publicity may have on AIG, see Item 1A. Risk Factors in Part II of this Quarterly Report on Form 10-Q.

General Insurance

Although Commercial Insurance has been generally successful in retaining clients, some have reduced the number of lines or limits of coverage due in part to concerns over AIG s financial strength. In addition, the number of new business opportunities has declined since September 2008 and the negative publicity concerning AIG has made soliciting new business more difficult. Senior management has spent considerable time since September 2008 meeting with policyholders and brokers explaining the financial strength of Commercial Insurance and the protections afforded policyholders by insurance regulations. Nevertheless, net premiums written declined 18 percent in the three-month period ended March 31, 2009 compared to the same period of 2008. The retention of existing business continues to be moderately lower than in the comparable prior year period; however, retention levels have shown improvement since the end of the first quarter of 2009.

Overall, rates in Commercial Insurance were essentially flat in early 2009 compared to the first quarter of 2008. The stabilization of rates is an improvement from the fourth quarter of 2008 and reflects the offsetting effects of downward pressure on premiums from the current recessionary environment and the recent introduction of new competitors in the marketplace, and the upward pressure on premiums from the combination of investment and underwriting losses suffered by the commercial insurance industry.

AIG expects that the current recessionary environment will continue to affect United Guaranty Corporation s (UGC) operating results for the foreseeable future and will result in a significant operating loss for UGC in 2009.

For second quarter 2009, Foreign General Insurance expects to be able to maintain solid client retention rates and underwriting results. However, de-risking by some customers and the economic downturn will continue to adversely affect Foreign General s net premiums written, primarily through a decline in new business production. Conversely, Foreign General should also benefit from the trend of customers de-risking from other providers. In the Far East operations, where April is the critical renewal period, the second quarter production is consistent with the first months of this year which was affected by the major deterioration in auto sales coupled with reduction in leisure travel. Although Foreign General continues to face challenges in commercial lines, particularly in the U.K./Ireland and Europe regions, due to increased competition and worldwide credit related insurance exposures, its traditional capabilities of servicing its customers, innovation and claims paying ability continue to attract new accounts. Foreign General remains committed to underwriting for profit and continues to examine all risk rating, coverage adequacy and rate improvement, particularly in the financial institutions sector.

On March 2, 2009, AIG announced that it intends to form a General Insurance holding company, including its Commercial Insurance Group, Foreign General unit, and other property and casualty operations (AIU Holdings), with a board of directors, management team and brand distinct from AIG. The establishment of this holding company will assist AIG in preparing for the potential sale of a minority stake in this business. On April 21, 2009, AIG announced that it will transfer this business to an SPV in return for preferred and common interests in the SPV. AIG also intends to purchase from AIU Holdings its equity interests in ILFC, UGC and Transatlantic Holdings, Inc. (Transatlantic), to clarify the businesses of AIU Holdings.

Life Insurance & Retirement Services

AIG expects that criticism and negative publicity about AIG during the first quarter of 2009 and AIG s previously announced asset disposition plan will continue to adversely affect Life Insurance & Retirement Services operating results in 2009, specifically net investment income, deferred policy acquisition costs and sales inducement asset (SIA) amortization and net realized capital gains (losses). In addition, AIG s issues have affected certain operations through higher surrender activity, primarily in the U.S. domestic retirement fixed annuity business and foreign investment-oriented and retirement products. While surrender levels have declined from their peaks in mid-September of 2008, they continue to be higher than historic levels in certain products and countries. and AIG expects surrender activity to continue to be volatile.

These uncertainties, together with rating agency downgrades, have resulted in significantly reduced levels of new sales activity, particularly among products and markets where ratings are critical. Sales of investment-oriented and retirement services products have also declined due to the general decline in the equity markets. New sales activity is expected to remain at lower levels until the uncertainties relating to AIG are resolved.

On March 2, 2009, AIG and the Board of Governors of the Federal Reserve System announced their intent to enter into transactions pursuant to which AIG will transfer to the FRBNY preferred equity interests in newly-formed SPVs. Each SPV will hold (directly or indirectly) 100 percent of the common stock of AIA in one case and ALICO in the other. In exchange for the preferred equity interests received by the FRBNY, there would be a concurrent substantial reduction in the outstanding balance and maximum available amount to be borrowed on the FRBNY Facility. AIG will hold the common interests in the SPVs. Divestiture options for AIA and ALICO are being reviewed.

Financial Services

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

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

Asset Management

Distressed global markets have caused a significant decline in the value of assets under management, translating to lower base management fees and reduced carried interest revenues for Asset Management operations. Tight credit markets have put pressure on the commercial and residential real estate markets, which has caused values in certain geographic locations to decline, resulting in impairment charges on real estate held for investment purposes. These market conditions have also adversely affected the ability to pay or refinance maturing debt obligations in the private equity and real estate portfolios.

The criticism and negative publicity about AIG following the events of September 2008 and challenging market conditions have contributed to the loss of institutional and retail clients as well as significant redemptions from certain of AIG s managed hedge and mutual funds. Client losses and redemptions have leveled off from the fourth quarter of 2008 as markets have begun to show signs of stabilization in the later part of the first quarter of 2009. AIG s third party Institutional Asset Management business is not expected to launch any new funds or products prior to its divestiture from AIG.

Within the Spread-Based Investment business, distressed markets have resulted in continued loss of value of AIG s invested assets.

Results of Operations

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

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

Consolidated Results

AIG s consolidated results of operations were as follows:

	Three Months Ended March 31, 2009	**2008**	**Percentage Increase / (Decrease)**
	(In millions, except per share data)		
Revenues:			
Premiums and other considerations	**$ 18,820**	$ 20,672	(9)%
Net investment income	**2,283**	4,954	(54)
Net realized capital losses	**(3,102)**	(6,089)	
Unrealized market valuation losses on AIGFP super senior credit default swap Portfolio	**(452)**	(9,107)	
Other income	**2,909**	3,601	(19)
Total revenues	**20,458**	14,031	46
Benefits, claims and expenses:			
Policyholder benefits and claims incurred	**16,043**	15,882	1
Policy acquisition and other insurance expenses	**5,294**	5,612	(6)
Interest expense	**2,845**	1,272	124
Restructuring expenses and related asset impairment and other expenses	**362**		

Other expenses	**2,282**	2,529	(10)
Total benefits, claims and expenses	**26,826**	25,295	6
Loss before income tax benefit	**(6,368)**	(11,264)	
Income tax benefit	**(1,235)**	(3,537)	
Net loss	**(5,133)**	(7,727)	
Less: Net income (loss) attributable to the noncontrolling interest	**(780)**	78	
Net loss attributable to AIG	**$ (4,353)**	$ (7,805)	%

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Premiums and Other Considerations

Premiums and other considerations decreased in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to:

A decrease of $456 million primarily due to declines in renewal rates and new business in Commercial Insurance and Personal Lines;

a decrease of $414 million in Foreign General Insurance mainly due to the sale of the Brazilian operations in the fourth quarter of 2008, a weaker U.S. dollar, production declines in the United Kingdom and Far East regions, and the global economic downturn;

a decrease in Foreign Life Insurance & Retirement Services of $507 million primarily due to the sale of the Brazilian operations in the fourth quarter of 2008, a decline in lending activity, which negatively affected the credit business in Europe and equity market declines, which negatively affected the variable annuity business in the U.K. and the investment-oriented products, particularly in Asia; and

a decrease in Domestic Life Insurance of $405 million as negative AIG publicity continued to affect sales, particularly for payout annuities.

Net Investment Income

The components of consolidated net investment income were as follows:

Three Months Ended March 31,	**2009**	**2008** (In millions)	**Percentage Increase (Decrease)**
Fixed maturities, including short-term investments	**$ 3,012**	$ 5,473	(45)%
Equity securities	**84**	70	20
Interest on mortgage and other loans	**403**	378	7
Partnerships	**(686)**	106	
Mutual funds	**(100)**	(145)	
Trading account losses	**(38)**	(88)	
Other investments	**149**	199	(25)
Total investment income before policyholder income and trading gains (losses)	**2,824**	5,993	(53)
Policyholder investment income and trading losses	**(307)**	(785)	
Total investment income	**2,517**	5,208	(52)
Investment expenses	**234**	254	(8)
Net investment income	**$ 2,283**	$ 4,954	(54)%

Net investment income decreased in the three-month period ended March 31, 2009 compared to the same period in 2008 due to:

- losses associated with the change in fair value of AIG s equity interest in ML III of approximately $1.9 billion in 2009, reported in fixed maturities and reflected in the Other category in AIG s segment results;

- losses from partnership investments reflecting significantly weaker market conditions in 2009 than in 2008;

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

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

The decline was partially offset by lower policyholder investment income and trading losses for Foreign Life Insurance & Retirement Services (together, policyholder trading losses), which were $295 million for the three months ended March 31, 2009 compared to $762 million for the same period last year. Policyholder trading losses are offset by a change in policyholder benefits and claims incurred and generally reflect the trends in equity markets, principally in Japan and Asia.

Net Realized Capital Gains (Losses)

Three Months Ended March 31,	**2009**	2008
	(In millions)	
Sales of fixed maturity securities	**$ (80)**	$ 19
Sales of equity securities	**(34)**	80
Sales of real estate and other assets	**(40)**	153
Other-than-temporary impairments:		
Severity	**(1,765)**	(4,105)
Lack of intent to hold to recovery	**(791)**	(779)
Foreign currency declines	**(166)**	(401)
Issuer-specific credit events	**(1,120)**	(171)
Adverse projected cash flows on structured securities	**(145)**	(137)
Foreign exchange transactions	**285**	(664)
Derivative instruments	**754**	(84)
Total	**$ (3,102)**	$ (6,089)

Net realized capital losses decreased $3.0 billion in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to a decrease in other-than-temporary impairment charges of $1.6 billion primarily related to certain residential mortgage-backed securities (RMBS) and other structured securities as well as the favorable effect of foreign exchange transactions of $949 million.

See Investments Portfolio Review Other-Than-Temporary Impairments.

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

The unrealized market valuation losses on AIGFP s super senior credit default swap portfolio decreased in the three-month period ended March 31, 2009 largely because of the substantial decline in outstanding net notional amount resulting from the termination of contracts in the fourth quarter of 2008 associated with the ML III transaction. Changes in fair value of AIG s interest in ML III are recorded in Net investment income. See Financial Services Operations Capital Markets Results; Critical Accounting Estimates Valuation of Level 3 Assets and Liabilities; Note 4 to the Consolidated Financial Statements; and Note 5 to the Consolidated Financial Statements in the 2008 Annual Report on Form 10-K.

Other Income (Loss)

Other Income (loss) decreased in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to lower partnership income related to the Spread-Based Investment Business and a decline in Institutional Asset Management revenues.

Policyholder Benefits and Claims Incurred

Policyholder benefits and claims incurred of $16.0 billion for the three-month period ended March 31, 2009 was essentially unchanged from the same period in 2008.

Policy Acquisition and Other Insurance Expenses

Policy acquisition and other insurance expenses decreased in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to a $294 million decrease in General Insurance expenses reflecting a decline in production levels. Life Insurance & Retirement Services policy acquisition and other insurance expenses increased by $96 million compared to the same period in 2008 primarily due to higher deferred policy acquisition costs (DAC) unlockings of $377 million related to changes in the long-term separate account growth rate assumption for Domestic Retirement Services and restructuring costs, partially offset by a higher DAC benefit of $414 million related to net realized capital losses.

Interest Expense

Interest expense increased in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to $1.53 billion of interest expense on the FRBNY Facility which was comprised of $822 million of amortization of the prepaid commitment fee asset and $708 million of accrued compounding interest. These amounts are reflected in the Other category in AIG s segment results.

Restructuring Expenses and Related Asset Impairment and Other Expenses

In the fourth quarter of 2008, AIG commenced an organization-wide restructuring plan under which some of its businesses will be divested, some will be held for later divestiture, and some businesses will be prepared for potential offerings to the public. In connection with activities under this plan, AIG recorded restructuring and separation expenses of $362 million in the three-month period ended March 31, 2009, consisting of severance expenses of $38 million, contract termination expenses of $20 million, asset write-downs of $11 million, other exit expenses of $135 million and separation expenses of $158 million.

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

Severance and separation expenses described above include retention awards of $162 million to key employees to maintain ongoing business operations and facilitate the successful execution of the restructuring and asset disposition plan. The awards under these retention plans were granted in 2008 and are accrued ratably over the future service periods, which range from 2008 to 2011. The total amount expected to be incurred related to these 2008 retention plans is approximately $1.1 billion. AIG made payments to the employees under these plans in 2008 and the first quarter of 2009 and expects to make further payments for the remainder of 2009 through 2011. The ultimate amount paid could be less primarily due to the effect of forfeitures.

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

	General Insurance	Life Insurance & Retirement Services	Financial Services	Asset Management	Other	Total
	(In millions)					
Amounts charged to expense:						
Three months ended March 31, 2009	$ 42	$ 45	$ 58	$ 10	$ 7	$ 162
	143	97	295	56	63	654

Cumulative incurred since inception						
Amounts expected to be incurred in future periods:						
Remainder of 2009	111	95	144	17	37	404
2010		17			2	19
2011		1				1
Total amounts expected to be incurred in future periods	111	113	144	17	39	424
Total amounts expected to be incurred	$ 254	$ 210	$ 439	$ 73	$ 102	$ 1,078

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

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

Other Expenses

Other Expenses decreased in the three-month period ended March 31, 2009 compared to the same period in 2008 primarily due to a decrease in compensation-related costs in the Financial Services and Asset Management segments as well as in the Parent company.

Income Taxes (Benefits)

The effective tax rate on the pre-tax loss for the three-month period ended March 31, 2009 was 19.4 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to a $1.6 billion increase in the valuation allowance against a portion of AIG s deferred tax assets, partially offset by $587 million of deferred tax benefits mainly attributable to the book to tax basis differences of AIG parent s investment in subsidiaries and other discrete items.

Realization of the deferred tax asset depends on AIG s ability to generate sufficient taxable income of the appropriate character within the carryforward periods of the jurisdictions in which the net operating losses and deductible temporary differences were incurred. AIG assessed its ability to realize its deferred tax asset of $36.8 billion and concluded a $22.5 billion valuation allowance was required to reduce the deferred tax asset to $14.3 billion, which is an amount AIG believes is more likely than not to be realized. This compares to a net deferred tax asset of $11.0 billion at December 31, 2008. The increase in the net deferred tax asset of $3.3 billion includes $1.6 billion of deferred taxes attributable to Other comprehensive loss. The remaining increase results from the tax benefit of $3.3 billion on the operating loss offset by an increase in the valuation allowance of $1.6 billion. See Note 11 to the Consolidated Financial Statements for additional discussion regarding deferred tax asset realization. For a discussion of the risks associated with the realization of AIG s deferred tax assets, see Item 1A. Risk Factors in Part II of this Quarterly Report on Form 10-Q.

The effective tax rate on the pre-tax loss for the three-month period ended March 31, 2008 was 31.4 percent. The effective tax rate was lower than the statutory rate of 35 percent due primarily to $703 million of tax charges comprised of increases in the reserves for uncertain tax positions and other discrete period items.

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American International Group, Inc. and Subsidiaries

Segment Results

Three Months Ended March 31,	**2009**	**2008**
	(In millions)	
Total Revenues*(a)(b)*:		
General Insurance	**$ 10,692**	$ 12,289
Life Insurance & Retirement Services	**8,857**	8,752
Financial Services*(c)(d)*	**1,273**	(6,560)
Asset Management	**299**	(149)
Other	**(40)**	(128)
Consolidation and eliminations	**(623)**	(173)
Total	**20,458**	14,031
Net realized capital gains (losses)*(a)(b)*:		
General Insurance	**(447)**	(273)
Life Insurance & Retirement Services	**(3,108)**	(4,369)
Financial Services*(c)*	**(34)**	(151)
Asset Management	**(152)**	(1,405)
Other	**639**	109
Total	**(3,102)**	(6,089)
Operating Income (loss)*(a)(b)*:		
General Insurance	**(1)**	1,337
Life Insurance & Retirement Services	**(1,873)**	(1,831)
Financial Services*(c)(d)*	**(1,122)**	(8,772)
Asset Management	**(633)**	(1,251)
Other	**(2,348)**	(768)
Consolidation and eliminations	**(391)**	21
Total	**$ (6,368)**	$ (11,264)

(a) Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2009 and 2008, the effect was $714 million and $(748) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.

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

(c) *Includes gains (losses) from hedging activities that did not qualify for hedge accounting treatment under FAS 133, including the related foreign exchange gains and losses. For the three-month periods ended March 31, 2009 and 2008, the effect was $(3) million and $(204) million, respectively, in both revenues and operating income (loss). These amounts result primarily from interest rate and foreign currency derivatives that are effective economic hedges of investments and borrowings.*

(d) *Includes unrealized market valuation losses of $452 million and $9.1 billion for the three-month periods ended March 31, 2009 and 2008, respectively, on AIGFP s super senior credit default swap portfolio.*

General Insurance Operations

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

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

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

AIG s Personal Lines operations provide automobile insurance through 21st Century Insurance Group, its direct marketing distribution channel, and the Agency Auto Division, its independent agent/broker distribution channel. Personal Lines also provides a broad range of coverages for high net worth individuals through the AIG Private Client Group (Private Client Group). Coverages for the Personal Lines operations are written predominantly in the United States. AIG has entered into a contract to sell 21st Century Insurance Group (excluding the Private Client Group) to the Farmers Group, Inc.

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

AIG s Foreign General Insurance Group writes both commercial and consumer lines of insurance which is primarily underwritten through American International Underwriters, a marketing unit consisting of wholly owned agencies and insurance companies. The Foreign General Insurance Group also includes business written by AIG s foreign-based insurance subsidiaries.

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American International Group, Inc. and Subsidiaries

General Insurance Results

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

Three Months Ended March 31,	2009	2008	Percentage Increase/ (Decrease)
	(In millions, except ratios)		
Net premiums written:			
Commercial Insurance	**$ 4,175**	$ 5,113	(18)%
Transatlantic	**1,047**	1,036	1
Personal Lines	**924**	1,288	(28)
Mortgage Guaranty	**269**	304	(12)
Foreign General Insurance	**3,552**	4,339	(18)
Total	**$ 9,967**	$ 12,080	(17)%
Net premiums earned:			
Commercial Insurance	**$ 5,201**	$ 5,417	(4)%
Transatlantic	**977**	1,017	(4)
Personal Lines	**983**	1,199	(18)
Mortgage Guaranty	**272**	256	6
Foreign General Insurance	**3,054**	3,468	(12)
Total	**$ 10,487**	$ 11,357	(8)%
Net investment income:			
Commercial Insurance	**$ 296**	$ 743	(60)%
Transatlantic	**111**	117	(5)
Personal Lines	**49**	57	(14)
Mortgage Guaranty	**42**	44	(5)
Foreign General Insurance	**154**	242	(36)
Reclassifications and eliminations		2	
Total	**$ 652**	$ 1,205	(46)%
Net realized capital gains (losses)	**$ (447)**	$ (273)	%
Operating income (loss):			
Commercial Insurance	**$ 22**	$ 785	(97)%
Transatlantic	**108**	162	(33)

Personal Lines		**2**		3	(33)
Mortgage Guaranty		**(480)**		(354)	
Foreign General Insurance		**347**		736	(53)
Reclassifications and eliminations				5	
Total	**$**	**(1)**	$	1,337	%
Statutory underwriting profit (loss)*:					
Commercial Insurance	**$**	**144**	$	218	(34)%
Transatlantic		**29**		54	(46)
Personal Lines		**(31)**		(63)	
Mortgage Guaranty		**(497)**		(407)	
Foreign General Insurance		**173**		364	(52)
Total	**$**	**(182)**	$	166	%
Domestic					
Loss ratio		**85.2**		78.6	
Expense ratio		**21.5**		23.5	
Combined ratio		**106.7**		102.1	
Foreign					
Loss ratio		**55.6**		51.8	
Expense ratio		**34.7**		31.6	
Combined ratio		**90.3**		83.4	
Consolidated					
Loss ratio		**76.6**		70.4	
Expense ratio		**25.4**		26.0	
Combined ratio		**102.0**		96.4	

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

Three Months Ended March 31,	Commercial Insurance	Transatlantic	Personal Lines	Mortgage Guaranty	Foreign General Insurance	Reclassifications and Eliminations	Total
				(In millions)			
2009							
Statutory underwriting profit (loss)	**$ 144**	**$ 29**	**$ (31)**	**$ (497)**	**$ 173**	**$**	**$ (182)**
Increase (decrease) in DAC	**(130)**	**17**	**(8)**	**(28)**	**125**		**(24)**
Net investment income	**296**	**111**	**49**	**42**	**154**		**652**
Net realized capital gains (losses)	**(288)**	**(49)**	**(8)**	**3**	**(105)**		**(447)**
Operating income (loss)	**$ 22**	**$ 108**	**$ 2**	**$ (480)**	**$ 347**	**$**	**$ (1)**
2008							
Statutory underwriting profit (loss)	$ 218	$ 54	$ (63)	$ (407)	$ 364	$	$ 166
Increase in DAC	(3)	6	13	11	212		239
Net investment income	743						