AMERICAN INTERNATIONAL GROUP INC
Form 10-Q
May 03, 2012

Use these links to rapidly review the document
Table of Contents
TABLE OF CONTENTS 2

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012

Commission File Number 1-8787

American International Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of April 30, 2012, there were 1,794,014,435 shares outstanding of the registrant's common stock.

American International Group, Inc.

Table of Contents

Table of Contents

American International Group, Inc.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Balance Sheet *(unaudited)*

(in millions, except for share data)	March 31, 2012	December 31, 2011
Assets:		
Investments:		
Fixed maturity securities:		
Bonds available for sale, at fair value (amortized cost: 2012 $250,164; 2011 $250,770)	**$ 266,362**	$ 263,981
Bond trading securities, at fair value	**24,481**	24,364
Equity securities:		
Common and preferred stock available for sale, at fair value (cost: 2012 $1,782; 2011 $1,820)	**3,026**	3,624
Common and preferred stock trading, at fair value	**123**	125
Mortgage and other loans receivable, net of allowance (portion measured at fair value: 2012 $114; 2011 $107)	**19,519**	19,489
Flight equipment primarily under operating leases, net of accumulated depreciation	**35,452**	35,539
Other invested assets (portion measured at fair value: 2012 $17,094; 2011 $20,876)	**37,209**	40,744
Short-term investments (portion measured at fair value: 2012 $4,408; 2011 $5,913)	**20,789**	22,572
Total investments	**406,961**	410,438
Cash	**1,315**	1,474
Accrued investment income	**3,165**	3,108
Premiums and other receivables, net of allowance	**15,648**	14,721
Reinsurance assets, net of allowance	**28,257**	27,211
Current and deferred income taxes	**15,955**	17,802
Deferred policy acquisition costs	**8,753**	8,937
Derivative assets, at fair value	**4,221**	4,499
Other assets, including restricted cash of $3,520 in 2012 and $2,988 in 2011	**14,103**	12,782
Separate account assets, at fair value	**56,025**	51,388
Total assets	**$ 554,403**	$ 552,360
Liabilities:		
Liability for unpaid claims and claims adjustment expense	**$ 89,785**	$ 91,145
Unearned premiums	**25,034**	23,465
Future policy benefits for life and accident and health insurance contracts	**34,493**	34,317
Policyholder contract deposits (portion measured at fair value: 2012 $782; 2011 $918)	**126,376**	126,898
Other policyholder funds	**6,561**	6,691
Derivative liabilities, at fair value	**4,222**	4,733
Other liabilities (portion measured at fair value: 2012 $1,516; 2011 $907)	**31,346**	27,554
Long-term debt (portion measured at fair value: 2012 $10,579; 2011 $10,766)	**76,096**	75,253
Separate account liabilities	**56,025**	51,388
Total liabilities	**449,938**	441,444
Commitments, contingencies and guarantees (see Note 9)		
Redeemable noncontrolling interests (see Note 1):		
Nonvoting, callable, junior preferred interests held by Department of the Treasury	**-**	8,427
Other	**121**	96
Total redeemable noncontrolling interests	**121**	8,523
AIG shareholders' equity:		
	4,766	4,766

Common stock, $2.50 par value; 5,000,000,000 shares authorized; shares issued: 2012 1,906,614,552 and 2011 1,906,568,099				
Treasury stock, at cost; 2012 113,167,239; 2011 9,746,617 shares of common stock		**(3,942)**		(942)
Additional paid-in capital		**81,772**		81,787
Retained earnings		**13,982**		10,774
Accumulated other comprehensive income		**6,873**		5,153
Total AIG shareholders' equity		**103,451**		101,538
Non-redeemable noncontrolling interests		**893**		855
Total equity		**104,344**		102,393
Total liabilities and equity	**$**	**554,403**	$	552,360

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

Table of Contents

American International Group, Inc.

Consolidated Statement of Operations *(unaudited)*

Three Months Ended March 31, ***(dollars in millions, except per share data)***	**2012**	**2011**
Revenues:		
Premiums	**$ 9,461**	$ 9,482
Policy fees	**691**	684
Net investment income	**7,105**	5,569
Net realized capital losses:		
Total other-than-temporary impairments on available for sale securities	**(168)**	(218)
Portion of other-than-temporary impairments on available for sale fixed maturity securities recognized in Other comprehensive income	**(285)**	3
Net other-than-temporary impairments on available for sale securities recognized in net income	**(453)**	(215)
Other realized capital gains (losses)	**150**	(433)
Total net realized capital losses	**(303)**	(648)
Aircraft leasing revenue	**1,156**	1,156
Other income	**333**	1,196
Total revenues	**18,443**	17,439
Benefits, claims and expenses:		
Policyholder benefits and claims incurred	**7,102**	8,959
Interest credited to policyholder account balances	**1,069**	1,106
Amortization of deferred acquisition costs	**1,347**	1,231
Other acquisition and insurance expenses	**2,258**	1,968
Interest expense	**953**	1,061
Aircraft leasing expenses	**625**	670
Net loss on extinguishment of debt	**21**	3,313
Other expenses	**484**	441
Total benefits, claims and expenses	**13,859**	18,749
Income (loss) from continuing operations before income tax expense (benefit)	**4,584**	(1,310)
Income tax expense (benefit)	**1,148**	(226)
Income (loss) from continuing operations	**3,436**	(1,084)
Income from discontinued operations, net of income tax expense (benefit)	**13**	2,585
Net income	**3,449**	1,501
Less:		
Net income from continuing operations attributable to noncontrolling interests:		
Nonvoting, callable, junior and senior preferred interests	**208**	252
Other	**33**	(55)
Total net income from continuing operations attributable to noncontrolling interests	**241**	197
Net income from discontinued operations attributable to noncontrolling interests	**-**	7
Total net income attributable to noncontrolling interests	**241**	204
Net income attributable to AIG	**$ 3,208**	$ 1,297

Net income attributable to AIG common shareholders	**$**	**3,208**	$	485
Income per common share attributable to AIG common shareholders:				
Basic:				
Income (loss) from continuing operations	**$**	**1.70**	$	(1.34)
Income from discontinued operations	**$**	**0.01**	$	1.65
Diluted:				
Income (loss) from continuing operations	**$**	**1.70**	$	(1.34)
Income from discontinued operations	**$**	**0.01**	$	1.65
Weighted average shares outstanding:				
Basic		**1,875,972,970**		1,557,748,353
Diluted		**1,876,002,775**		1,557,748,353

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

Table of Contents

American International Group, Inc.

Consolidated Statement of Comprehensive Income *(unaudited)*

Three Months Ended March 31, *(in millions)*	2012	2011
Net income	**$ 3,449**	$ 1,501
Other comprehensive income (loss), net of tax		
Change in unrealized appreciation of fixed maturity investments on which other-than-temporary credit impairments were taken	**613**	396
Change in unrealized appreciation (depreciation) of all other investments	**981**	(807)
Change in foreign currency translation adjustments	**91**	(517)
Change in net derivative gains arising from cash flow hedging activities	**22**	13
Change in retirement plan liabilities adjustment	**18**	135
Other comprehensive income (loss)	**1,725**	(780)
Comprehensive income	**5,174**	721
Comprehensive income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	**208**	252
Comprehensive income (loss) attributable to other noncontrolling interests	**38**	(12)
Total comprehensive income attributable to noncontrolling interests	**246**	240
Comprehensive income attributable to AIG	**$ 4,928**	$ 481

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

Table of Contents

American International Group, Inc.

Consolidated Statement of Cash Flows *(unaudited)*

Three Months Ended March 31, *(in millions)*	**2012**	2011
Cash flows from operating activities:		
Net income	**$ 3,449**	$ 1,501
Income from discontinued operations	**(13)**	(2,585)
Adjustments to reconcile net income to net cash used in operating activities:		
Noncash revenues, expenses, gains and losses included in income:		
Net (gains) losses on sales of securities available for sale and other assets	**(930)**	129
Net losses on extinguishment of debt	**21**	3,313
Unrealized gains in earnings net	**(3,630)**	(2,139)
Equity in income from equity method investments, net of dividends or distributions	**(225)**	(482)
Depreciation and other amortization	**1,720**	1,852
Impairments of assets	**741**	445
Changes in operating assets and liabilities:		
General and life insurance reserves	**271**	5,824
Premiums and other receivables and payables net	**(50)**	(676)
Reinsurance assets and funds held under reinsurance treaties	**(1,059)**	(4,049)
Capitalization of deferred policy acquisition costs	**(1,417)**	(1,337)
Other policyholder funds	**(128)**	(104)
Current and deferred income taxes net	**1,050**	(611)
Trading securities	**(118)**	278
Payment of FRBNY Credit Facility accrued compounded interest and fees	**-**	(6,363)
Other, net	**207**	(1,538)
Total adjustments	**(3,547)**	(5,458)
Net cash used in operating activities continuing operations	**(111)**	(6,542)
Net cash provided by operating activities discontinued operations	**-**	1,230
Net cash used in operating activities	**(111)**	(5,312)
Cash flows from investing activities:		
Proceeds from (payments for)		
Sales of available for sale investments	**10,750**	11,665
Maturities of fixed maturity securities available for sale and hybrid investments	**4,865**	4,305
Sales of trading securities	**3,067**	6,987
Sales or distributions of other invested assets (including flight equipment)	**6,799**	2,671
Principal payments received on and sales of mortgage and other loans receivable	**715**	759
Purchases of available for sale investments	**(14,500)**	(19,456)
Purchases of trading securities	**(379)**	(199)
Purchases of other invested assets (including flight equipment)	**(1,720)**	(1,488)
Mortgage and other loans receivable issued and purchased	**(794)**	(403)
Net change in restricted cash	**(531)**	26,280
Net change in short-term investments	**2,172**	4,180
Net change in derivative assets and liabilities other than AIGFP	**(136)**	79
Other, net	**(122)**	32
Net cash provided by investing activities continuing operations	**10,186**	35,412
Net cash provided by investing activities discontinued operations	**-**	4,205
Net cash provided by investing activities	**10,186**	39,617
Cash flows from financing activities:		

Proceeds from (payments for)		
Policyholder contract deposits	**3,510**	4,804
Policyholder contract withdrawals	**(3,930)**	(3,684)
Federal Reserve Bank of New York credit facility repayments	**-**	(14,622)
Issuance of long-term debt	**4,769**	183
Repayments of long-term debt	**(4,264)**	(3,894)
Proceeds from drawdown on the Department of the Treasury Commitment	**-**	20,292
Repayment of Department of the Treasury SPV Preferred Interests	**(8,636)**	(9,146)
Repayment of Federal Reserve Bank of New York SPV Preferred Interests	**-**	(26,432)
Issuance of Common Stock	**-**	723
Purchase of Common Stock	**(3,000)**	-
Acquisition of noncontrolling interest	**(14)**	(533)
Other, net	**1,333**	(539)
Net cash used in financing activities continuing operations	**(10,232)**	(32,848)
Net cash used in financing activities discontinued operations	**-**	(1,637)
Net cash used in financing activities	**(10,232)**	(34,485)
Effect of exchange rate changes on cash	**(2)**	23
Net decrease in cash	**(159)**	(157)
Cash at beginning of period	**1,474**	1,558
Change in cash of businesses held for sale	**-**	400
Cash at end of period	**$ 1,315**	$ 1,801

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

Table of Contents

American International Group, Inc.

Consolidated Statement of Equity *(unaudited)*

(in millions)	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income	Total AIG Share-holders' Equity	Non redeemable non-controlling Interests	Total Equity
Three Months Ended March 31, 2012									
Balance, beginning of year	**$ -**	**$ 4,766**	**$ (942)**	**$ 81,787**	**$ 10,774**	**$ 5,153**	**$ 101,538**	**$ 855**	**$ 102,393**
Purchase of common stock	**-**	**-**	**(3,000)**	**-**	**-**	**-**	**(3,000)**	**-**	**(3,000)**
Net income attributable to AIG or other noncontrolling interests[(a)]	**-**	**-**	**-**	**-**	**3,208**	**-**	**3,208**	**23**	**3,231**
Other comprehensive income[(b)]	**-**	**-**	**-**	**-**	**-**	**1,720**	**1,720**	**3**	**1,723**
Deferred income taxes	**-**	**-**	**-**	**(7)**	**-**	**-**	**(7)**	**-**	**(7)**
Contributions from noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**42**	**42**
Distributions to noncontrolling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14)**	**(14)**
Other	**-**	**-**	**-**	**(8)**	**-**	**-**	**(8)**	**(16)**	**(24)**
Balance, end of period	**$ -**	**$ 4,766**	**$ (3,942)**	**$ 81,772**	**$ 13,982**	**$ 6,873**	**$ 103,451**	**$ 893**	**$ 104,344**
Three Months Ended March 31, 2011									
Balance, beginning of year	$ 71,983	$ 368	$ (873)	$ 9,683	$ (3,466)	$ 7,624	$ 85,319	$ 27,920	$ 113,239
Cumulative effect of change in accounting principle, net of tax	-	-	-	-	(6,382)	(81)	(6,463)	-	(6,463)
Series F drawdown	20,292	-	-	-	-	-	20,292	-	20,292
Repurchase of SPV preferred interests in connection with Recapitalization	-	-	-	-	-	-	-	(26,432)	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization	(92,275)	4,138	-	67,460	-	-	(20,677)	-	(20,677)

Settlement of equity unit stock purchase contract	-	3	-	720	-	-	723	-	723
Net income (loss) attributable to AIG or other noncontrolling interests[(a)]	-	-	-	-	1,297	-	1,297	(57)	1,240
Net income attributable to noncontrolling nonvoting, callable, junior and senior preferred interests	-	-	-	-	-	-	-	74	74
Other comprehensive income (loss)[(b)]	-	-	-	-	-	(816)	(816)	37	(779)
Acquisition of noncontrolling interest	-	-	-	(172)	-	143	(29)	(509)	(538)
Net decrease due to deconsolidation	-	-	-	-	-	-	-	(109)	(109)
Contributions from noncontrolling interests	-	-	-	-	-	-	-	5	5
Distributions to noncontrolling interests	-	-	-	-	-	-	-	(101)	(101)
Other	-	(1)	-	6	(4)	-	1	(9)	(8)
Balance, end of period	$ -	$ 4,508	$ (873)	$ 77,697	$ (8,555)	$ 6,870	$ 79,647	$ 819	$ 80,466

(a) *Excludes gains of $218 million and $187 million for the three months ended March 31, 2012 and 2011, respectively, attributable to redeemable noncontrolling interests.*

(b) *Excludes $2 million and $(1) million attributable to redeemable noncontrolling interests for the three months ended March 31, 2012 and 2011, respectively.*

See accompanying Notes to Consolidated Financial Statements, which include a summary of revisions to prior year balances in connection with a change in accounting principle.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

1. BASIS OF PRESENTATION AND SIGNIFICANT EVENTS

These unaudited condensed consolidated financial statements do not include all disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) and should be read in conjunction with the audited consolidated financial statements and the related notes included in the Annual Report on Form 10-K of American International Group, Inc. (AIG) for the year ended December 31, 2011, as amended by Amendment No. 1 and Amendment No. 2 on Form 10-K/A filed on February 27, 2012 and March 30, 2012, respectively (collectively, the 2011 Annual Report on Form 10-K). The condensed consolidated financial information as of December 31, 2011 included herein has been derived from audited consolidated financial statements not included herein.

Certain of AIG's foreign subsidiaries included in the consolidated financial statements report on different fiscal-period bases. The effect on AIG's consolidated financial condition and results of operations of all material events occurring at these subsidiaries through the date of each of the periods presented in these financial statements has been recorded.

In the opinion of management, these consolidated financial statements contain the normal recurring adjustments necessary for a fair statement of the results presented herein. Interim period operating results may not be indicative of the operating results for a full year. AIG evaluated the need to recognize or disclose events that occurred subsequent to March 31, 2012 and prior to the issuance of AIG's financial statements. All material intercompany accounts and transactions have been eliminated.

REVISIONS TO PRIOR YEAR FINANCIAL STATEMENTS

During the quarter ended March 31, 2012, AIG retroactively adopted a standard that changed its method of accounting for costs associated with acquiring or renewing insurance contracts. See Note 2 herein for additional details, including a summary of revisions to prior year financial statements.

USE OF ESTIMATES

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

- estimates with respect to income taxes, including the recoverability of deferred tax assets and the predictability of future tax planning strategies and operating profitability of the character necessary for their realization;
- recoverability of assets, including deferred policy acquisition costs (DAC), flight equipment, and reinsurance;
- insurance liabilities, including general insurance unpaid claims and claims adjustment expenses and future policy benefits for life and accident and health contracts;
- estimated gross profits for investment-oriented products;

impairment charges, including other-than-temporary impairments on financial instruments and goodwill impairments;

liabilities for legal contingencies; and

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

SIGNIFICANT EVENTS

During the three months ended March 31, 2012, AIG executed significant transactions in the debt and equity capital markets as described below.

March 2012 Common Stock Offering by the Department of the Treasury and AIG Purchase of Shares

On March 13, 2012, the United States Department of the Treasury (Department of the Treasury), as selling shareholder, completed a registered public offering (the Offering) of AIG Common Stock, par value $2.50 per share (AIG Common Stock), in which it sold approximately 207 million shares of AIG Common Stock for aggregate proceeds of approximately $6.0 billion. AIG purchased approximately 103 million shares of AIG Common Stock in the Offering for an aggregate purchase amount of approximately $3.0 billion. As a result of the Department of the Treasury's sale of AIG Common Stock and AIG's purchase of shares in the Offering, ownership by the Department of the Treasury was reduced from approximately 77 percent to approximately 70 percent of the AIG Common Stock outstanding after the completion of the Offering.

Sale of AIA Shares

On March 7, 2012, AIG sold approximately 1.72 billion ordinary shares of AIA Group Limited (AIA) for gross proceeds of approximately $6.0 billion (the AIA Sale). As a result of the AIA Sale, AIG's retained interest in AIA decreased from approximately 33 percent to approximately 19 percent. At March 31, 2012 and December 31, 2011, the fair value of AIG's retained interest in AIA was approximately $8.2 billion and $12.4 billion, respectively.

Senior Notes Offering

On March 22, 2012, AIG completed a registered offering of $750 million 3.000% Notes Due 2015 and $1.25 billion 3.800% Notes Due 2017 for the Matched Investment Program (MIP).

ILFC Debt Offerings

In the first quarter of 2012, International Lease Finance Corporation (ILFC) raised approximately $2.4 billion through a combination of secured and unsecured financings.

Pay Down of Department of the Treasury's AIA SPV Preferred Interests in Full

On March 7, 2012, AIG entered into an agreement with the Department of the Treasury to amend various agreements (the Amendment), whereby the special purpose vehicle that held AIG's remaining shares in AIA (the AIA SPV) was entitled to retain and distribute to AIG the net proceeds in excess of $5.6 billion received by the AIA SPV from the AIA Sale. In addition, the liens created by the agreements on (i) the equity interests in ILFC, (ii) the ordinary shares of AIA held by the AIA SPV subsequent to the closing of the AIA Sale and (iii) the common equity interests in the AIA SPV were released and such interests and AIA ordinary shares no longer constituted collateral securing the repayment of the liquidation preference of the Department of the Treasury's preferred interests in the AIA SPV (the AIA SPV Preferred Interests). The Amendment also required the AIA SPV and AM Holdings LLC (the ALICO SPV) to redeem their preferred participating return rights held by the Department of the Treasury before the release of the collateral. AIG contributed a portion of the net proceeds received by AIG in respect of its interest in Maiden Lane II LLC (ML II) to redeem these residual rights.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

On March 21, 2012, AIG entered into an agreement with the Department of the Treasury, pursuant to which the AIA SPV paid down in full the remaining liquidation preference of the AIA SPV Preferred Interests. As a result of the payment, the remaining liens on AIG assets supporting the paydown of these interests were released.

SUPPLEMENTARY DISCLOSURE OF CONSOLIDATED CASH FLOW INFORMATION

Three Months Ended March 31, ***(in millions)***	**2012**	**2011**
Cash paid during the period for:		
Interest*	**$ 939**	$ 5,796
Taxes	**$ 97**	$ 384
Non-cash financing/investing activities:		
Interest credited to policyholder contract deposits included in financing activities	**$ 1,100**	$ 1,255

* *2011 includes payment of FRBNY Credit Facility accrued compounded interest of $4.7 billion, before the facility was terminated on January 14, 2011 in connection with the series of integrated transactions to recapitalize AIG (the Recapitalization) with the Department of the Treasury, the Federal Reserve Bank of New York and the AIG Credit Facility Trust, including the repayment of all amounts owned under the Credit Agreement, dated as of September 22, 2008 (as amended, the FRBNY Credit Facility).*

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

RECENT ACCOUNTING STANDARDS

AIG adopted the following accounting standards on January 1, 2012:

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts

In October 2010, the Financial Accounting Standards Board (FASB) issued an accounting standard update that amends the accounting for costs incurred by insurance companies that can be capitalized in connection with acquiring or renewing insurance contracts. The standard clarifies how to determine whether the costs incurred in connection with the acquisition of new or renewal insurance contracts qualify as deferred policy acquisition costs. AIG adopted the standard retrospectively on January 1, 2012.

Policy acquisition costs represent those costs that are incremental and directly related to the successful acquisition of new or renewal insurance contracts. AIG defers incremental costs that result directly from, and are essential to, the acquisition or renewal of an insurance contract. Such costs generally include agent or broker commissions and bonuses, premium taxes, and medical and inspection fees that would not have been incurred if the insurance contract had not been acquired or renewed. Each cost is analyzed to assess whether it is fully deferrable. AIG partially defers costs, including certain commissions, when it does not believe the entire cost is directly related to the acquisition or renewal of insurance contracts.

AIG also defers a portion of employee total compensation and payroll-related fringe benefits directly related to time spent performing specific acquisition or renewal activities including costs associated with the time spent on underwriting, policy issuance and processing, and sales force contract selling. The amounts deferred are derived based on successful efforts for each distribution channel and/or cost center from which the cost originates.

Advertising costs related to the issuance of insurance contracts that meet the direct-advertising criteria are deferred and amortized as part of deferred policy acquisition costs.

The method AIG uses to amortize deferred policy acquisition costs for either short- or long-duration insurance contracts did not change as a result of the adoption of the standard.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The adoption of the standard resulted in a reduction to beginning of period retained earnings for the earliest period presented and a decrease in the amount of capitalized costs in connection with the acquisition or renewal of insurance contracts. Accordingly, AIG revised its historical financial statements and accompanying notes to the financial statements for the changes in deferred policy acquisition costs and associated changes in acquisition expenses and income taxes for affected entities and segments, including divested entities presented in continuing and discontinued operations.

The following tables present amounts previously reported in 2011, the effect of the change due to the retrospective adoption of the standard, and the adjusted amounts that are reflected in AIG's consolidated financial statements.

December 31, 2011 *(in millions)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Balance Sheet:			
Current and deferred income taxes	$ 16,084	$ 1,718	$ 17,802
Deferred policy acquisition costs	14,026	(5,089)	8,937
Other assets	12,824	(42)	12,782
Total assets	555,773	(3,413)	552,360
Retained earnings	14,332	(3,558)	10,774
Accumulated other comprehensive income	5,008	145	5,153
Total AIG shareholders' equity	104,951	(3,413)	101,538

Three Months Ended March 31, 2011 *(dollars in millions, except per share data)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Statement of Operations:			
Total net realized capital losses	$ (651)	$ 3	$ (648)
Total revenues	17,436	3	17,439
Interest credited to policyholder account balances	1,105	1	1,106
Amortization of deferred acquisition costs	1,716	(485)	1,231
Other acquisition and other insurance expenses	1,551	417	1,968
Total benefits, claims and expenses	18,816	(67)	18,749
Income (loss) from continuing operations before income tax benefit	(1,380)	70	(1,310)
Income tax benefit[(a)]	(200)	(26)	(226)
Income (loss) from continuing operations	(1,180)	96	(1,084)
Income (loss) from discontinued operations, net of income tax expense[(b)]	1,653	932	2,585
Net income	473	1,028	1,501

Net income attributable to AIG		269		1,028		1,297
Net income (loss) attributable to AIG common shareholders		(543)		1,028		485
Income (loss) per share attributable to AIG common shareholders:						
Basic:						
Income (loss) from continuing operations	$	(1.41)	$	0.07	$	(1.34)
Income from discontinued operations	$	1.06	$	0.59	$	1.65
Diluted						
Income (loss) from continuing operations	$	(1.41)	$	0.07	$	(1.34)
Income from discontinued operations	$	1.06	$	0.59	$	1.65

(a)

Includes a change in the deferred tax asset valuation allowance for the period.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(b)
Represents the effect on the gain on sale of AIG Star Life Insurance Co. Ltd. (AIG Star) and AIG Edison Life Insurance Company (AIG Edison), which were sold in the first quarter of 2011.

Adoption of the standard did not affect the previously reported totals for net cash flows provided by (used in) operating, investing, or financing activities, but did affect the following components of net cash flows provided by (used in) operating activities.

Three Months Ended March 31, 2011 *(in millions)*	**As Previously Reported**	**Effect of Change**	**As Currently Reported**
Cash flows from operating activities:			
Net income	$ 473	$ 1,028	$ 1,501
Income from discontinued operations	(1,653)	(932)	(2,585)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Noncash revenues, expenses, gains and losses included in income (loss):			
Unrealized gains in earnings net	(2,136)	(3)	(2,139)
Depreciation and other amortization	2,336	(484)	1,852
Changes in operating assets and liabilities:			
Capitalization of deferred policy acquisition costs	(1,754)	417	(1,337)
Current and deferred income taxes net	(585)	(26)	(611)
Total adjustments	(5,362)	(96)	(5,458)

For short-duration insurance contracts, starting in 2012, AIG has elected to include anticipated investment income in its determination of whether the deferred policy acquisition costs are recoverable. AIG believes the inclusion of anticipated investment income in the recoverability analysis is a preferable accounting policy, as it includes in the recoverability analysis the fact that there is a timing difference between when the premiums are collected and in turn invested and when the losses and related expenses are paid. This is considered a change in accounting principle that requires retrospective application to all periods presented. Because AIG historically has not recorded any premium deficiency on its short-duration insurance contracts even without the inclusion of anticipated investment income, there were no changes to the historical financial statements for the change in accounting principle.

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued an accounting standard that amends the criteria used to determine effective control for repurchase agreements and other similar arrangements such as securities lending transactions. The standard modifies the criteria for determining when these transactions would be accounted for as secured borrowings (i.e., financings) instead of sales of the securities.

The standard removes from the assessment of effective control the requirement that the transferor have the ability to repurchase or redeem the financial assets on substantially agreed terms, even in the event of default by the transferee. The removal of this requirement makes the level of collateral received by the transferor in a repurchase agreement or similar arrangement irrelevant in determining whether the transaction should be accounted for as a sale. Consequently, more repurchase agreements, securities lending transactions and similar arrangements will be accounted for as secured borrowings.

The guidance in the standard must be applied prospectively to transactions or modifications of existing transactions that occur on or after January 1, 2012. Under this standard, $1.2 billion in repurchase agreements (related to securities with a fair value of $1.8 billion) continued to be accounted for as sales as of March 31, 2012. Any modifications to these transactions that occur subsequent to adoption will result in an assessment of whether they should be accounted for as secured borrowings under the standard.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Common Fair Value Measurements and Disclosure Requirements in GAAP and IFRS

In May 2011, the FASB issued an accounting standard that amended certain aspects of the fair value measurement guidance in GAAP, primarily to achieve the FASB's objective of a converged definition of fair value and substantially converged measurement and disclosure guidance with International Financial Reporting Standards (IFRS). The measurement and disclosure requirements under GAAP and IFRS are now generally consistent, with certain exceptions including the accounting for day one gains and losses, measuring the fair value of alternative investments using net asset value and certain disclosure requirements.

The standard's fair value measurement and disclosure guidance applies to all companies that measure assets, liabilities, or instruments classified in shareholders' equity at fair value or provide fair value disclosures for items not recorded at fair value. While many of the amendments are not expected to significantly affect current practice, the guidance clarifies how a principal market is determined, addresses the fair value measurement of financial instruments with offsetting market or counterparty credit risks and the concept of valuation premise (i.e., in use or in exchange) and highest and best use, extends the prohibition on blockage factors to all three levels of the fair value hierarchy, and requires additional disclosures. The standard is effective for AIG for interim and annual periods beginning on January 1, 2012. The new disclosure requirements must be applied prospectively. The standard did not have any effect on AIG's consolidated financial condition, results of operations or cash flows. See Note 4 herein.

Presentation of Comprehensive Income

In June 2011, the FASB issued an accounting standard that requires the presentation of comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components, followed consecutively by a second statement that presents total other comprehensive income and its components. The standard did not have any effect on AIG's consolidated financial condition, results of operations or cash flows.

Testing Goodwill for Impairment

In September 2011, the FASB issued an accounting standard that amends the approach to testing goodwill for impairment. The standard simplifies how entities test goodwill for impairment by permitting an entity to first assess qualitative factors to determine whether it is more likely than not the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative, two-step goodwill impairment test. The standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of the standard did not affect AIG's consolidated financial condition, results of operations or cash flows.

3. SEGMENT INFORMATION

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

In order to align financial reporting with changes made during 2012 to the manner in which AIG's chief operating decision makers review the Chartis businesses to assess performance and make decisions about resources to be allocated, certain products previously reported in Commercial Insurance were reclassified to Consumer Insurance. These revisions did not affect the total Chartis reportable segment results previously reported.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

	Reportable Segment						
(in millions)	Chartis	SunAmerica	Aircraft Leasing*	Other Operations	Total	Consolidation and Eliminations	Consolidated
Three Months Ended March 31, 2012							
Total revenues	**$ 9,798**	**$ 3,696**	**$ 1,154**	**$ 4,003**	**$ 18,651**	**$ (208)**	**$ 18,443**
Pre-tax income (loss)	**910**	**862**	**120**	**2,736**	**4,628**	**(44)**	**4,584**
Three Months Ended March 31, 2011							
Total revenues	$ 9,880	$ 3,839	$ 1,159	$ 2,732	$ 17,610	$ (171)	$ 17,439
Pre-tax income (loss)	(374)	967	120	(1,997)	(1,284)	(26)	(1,310)

*

AIG's Aircraft Leasing operations consist of a single operating segment.

The following table presents Chartis operations by operating segment:

(in millions)	Commercial Insurance	Consumer Insurance	Other	Total Chartis
Three Months Ended March 31, 2012				
Total revenues	**$ 5,929**	**$ 3,612**	**$ 257**	**$ 9,798**
Pre-tax income	**565**	**234**	**111**	**910**
Three Months Ended March 31, 2011				
Total revenues	$ 6,066	$ 3,434	$ 380	$ 9,880
Pre-tax income (loss)	(384)	(255)	265	(374)

The following table presents SunAmerica operations by operating segment:

(in millions)	Domestic Life Insurance	Domestic Retirement Services	Total SunAmerica
Three Months Ended March 31, 2012			
Total revenues	**$ 2,159**	**$ 1,537**	**$ 3,696**
Pre-tax income	**488**	**374**	**862**
Three Months Ended March 31, 2011			
Total revenues	$ 1,962	$ 1,877	$ 3,839
Pre-tax income	333	634	967

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

(in millions)	Mortgage Guaranty	Global Capital Markets	Direct Investment Book	Retained Interests	Corporate & Other	Consolidation and Eliminations	Total Other Operations
Three Months Ended March 31, 2012							
Total revenues	**$ 200**	**$ 160**	**$ 344**	**$ 3,047**	**$ 262**	**$ (10)**	**$ 4,003**
Pre-tax income (loss)	**8**	**88**	**248**	**3,047**	**(658)**	**3**	**2,736**
Three Months Ended March 31, 2011							
Total revenues	$ 238	$ 386	$ 463	$ 1,649	$ 11	$ (15)	$ 2,732
Pre-tax income (loss)	8	290	410	1,649	(4,347)	(7)	(1,997)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

4. FAIR VALUE MEASUREMENTS

FAIR VALUE MEASUREMENTS ON A RECURRING BASIS

AIG carries certain of its financial instruments at fair value. AIG defines the fair value of a financial instrument as the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for a discussion of AIG's accounting policies and procedures regarding fair value measurements related to the following information.

Assets and liabilities recorded at fair value in the Consolidated Balance Sheet are measured and classified in accordance with a fair value hierarchy established in U.S. GAAP. The hierarchy consists 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.

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, quoted prices for identical or similar assets or liabilities in markets that are not active, 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.

Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. The circumstances for using these measurements include those in which there is little, if any, market activity for the asset or liability. Therefore, AIG must make certain assumptions as to the inputs a hypothetical market participant would use to value that asset or liability.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE ON A RECURRING BASIS

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

March 31, 2012 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting[(a)]**	***Cash Collateral[(b)]***	***Total***
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ -	$ 4,786	$ -	$ -	$ -	$ 4,786
Obligations of states, municipalities and political subdivisions	-	36,628	1,054	-	-	37,682
Non-U.S. governments	396	25,711	15	-	-	26,122
Corporate debt	-	145,157	1,323	-	-	146,480
RMBS	-	21,811	13,240	-	-	35,051
CMBS	-	3,890	4,173	-	-	8,063
CDO/ABS	-	3,296	4,882	-	-	8,178
Total bonds available for sale	396	241,279	24,687	-	-	266,362
Bond trading securities:						
U.S. government and government sponsored entities	505	6,951	-	-	-	7,456
Obligations of states, municipalities and political subdivisions	-	236	-	-	-	236
Non-U.S. governments	-	36	-	-	-	36
Corporate debt	-	1,088	5	-	-	1,093
RMBS	-	1,339	314	-	-	1,653
CMBS	-	1,280	433	-	-	1,713
CDO/ABS	-	3,878	8,416	-	-	12,294
Total bond trading securities	505	14,808	9,168	-	-	24,481
Equity securities available for sale:						
Common stock	2,754	1	50	-	-	2,805
Preferred stock	-	48	106	-	-	154
Mutual funds	54	13	-	-	-	67
Total equity securities available for sale	2,808	62	156	-	-	3,026
Equity securities trading	38	85	-	-	-	123
Mortgage and other loans receivable	-	113	1	-	-	114
Other invested assets[(c)]	8,332	1,576	7,186	-	-	17,094
Derivative assets:						
Interest rate contracts	2	6,510	1,015	-	-	7,527
Foreign exchange contracts	-	38	-	-	-	38
Equity contracts	110	128	48	-	-	286
Commodity contracts	-	153	2	-	-	155
Credit contracts	-	1	64	-	-	65
Other contracts	-	480	214	-	-	694
Counterparty netting and cash collateral	-	-	-	(3,264)	(1,280)	(4,544)

Total derivative assets	112	7,310	1,343	(3,264)	(1,280)	4,221
Short-term investments[(d)]	433	3,975	-	-	-	4,408
Separate account assets	53,210	2,815	-	-	-	56,025
Other assets	-	701	-	-	-	701
Total	$ 65,834	$ 272,724	$ 42,541	$ (3,264)	$ (1,280)	$ 376,555
Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 782	$ -	$ -	$ 782
Derivative liabilities:						
Interest rate contracts	-	6,307	237	-	-	6,544
Foreign exchange contracts	-	165	-	-	-	165
Equity contracts	1	232	8	-	-	241
Commodity contracts	-	156	-	-	-	156
Credit contracts[(e)]	-	2	2,769	-	-	2,771
Other contracts	-	159	251	-	-	410
Counterparty netting and cash collateral	-	-	-	(3,264)	(2,801)	(6,065)
Total derivative liabilities	1	7,021	3,265	(3,264)	(2,801)	4,222
Other long-term debt[(f)]	-	10,004	575	-	-	10,579
Other liabilities[(g)]	111	1,405	-	-	-	1,516
Total	$ 112	$ 18,430	$ 4,622	$ (3,264)	$ (2,801)	$ 17,099

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

December 31, 2011 *(in millions)*	**Level 1**	**Level 2**	**Level 3**	**Counterparty Netting**[(a)]	**Cash Collateral**[(b)]	**Total**
Assets:						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 174	$ 5,904	$ -	$ -	$ -	$ 6,078
Obligations of states, municipalities and political subdivisions	-	36,538	960	-	-	37,498
Non-U.S. governments	259	25,467	9	-	-	25,735
Corporate debt	-	142,883	1,935	-	-	144,818
RMBS	-	23,727	10,877	-	-	34,604
CMBS	-	3,991	3,955	-	-	7,946
CDO/ABS	-	3,082	4,220	-	-	7,302
Total bonds available for sale	433	241,592	21,956	-	-	263,981
Bond trading securities:						
U.S. government and government sponsored entities	100	7,404	-	-	-	7,504
Obligations of states, municipalities and political subdivisions	-	257	-	-	-	257
Non-U.S. governments	-	35	-	-	-	35
Corporate debt	-	809	7	-	-	816
RMBS	-	1,345	303	-	-	1,648
CMBS	-	1,283	554	-	-	1,837
CDO/ABS	-	3,835	8,432	-	-	12,267
Total bond trading securities	100	14,968	9,296	-	-	24,364
Equity securities available for sale:						
Common stock	3,294	70	57	-	-	3,421
Preferred stock	-	44	99	-	-	143
Mutual funds	55	5	-	-	-	60
Total equity securities available for sale	3,349	119	156	-	-	3,624
Equity securities trading	43	82	-	-	-	125
Mortgage and other loans receivable	-	106	1	-	-	107
Other invested assets[(c)]	12,549	1,709	6,618	-	-	20,876
Derivative assets:						
Interest rate contracts	2	7,251	1,033	-	-	8,286
Foreign exchange contracts	-	143	2	-	-	145
Equity contracts	92	133	38	-	-	263
Commodity contracts	-	134	2	-	-	136
Credit contracts	-	-	89	-	-	89
Other contracts	29	462	250	-	-	741
Counterparty netting and cash collateral	-	-	-	(3,660)	(1,501)	(5,161)
Total derivative assets	123	8,123	1,414	(3,660)	(1,501)	4,499
Short-term investments[(d)]	2,309	3,604	-	-	-	5,913
Separate account assets	48,502	2,886	-	-	-	51,388
Total	$ 67,408	$ 273,189	$ 39,441	$ (3,660)	$ (1,501)	$ 374,877

Liabilities:						
Policyholder contract deposits	$ -	$ -	$ 918	$ -	$ -	$ 918
Derivative liabilities:						
Interest rate contracts	-	6,661	248	-	-	6,909
Foreign exchange contracts	-	178	-	-	-	178
Equity contracts	-	198	10	-	-	208
Commodity contracts	-	146	-	-	-	146
Credit contracts(e)	-	4	3,362	-	-	3,366
Other contracts	-	155	217	-	-	372
Counterparty netting and cash collateral	-	-	-	(3,660)	(2,786)	(6,446)
Total derivative liabilities	-	7,342	3,837	(3,660)	(2,786)	4,733
Other long-term debt(f)	-	10,258	508	-	-	10,766
Other liabilities(g)	193	714	-	-	-	907
Total	$ 193	$ 18,314	$ 5,263	$ (3,660)	$ (2,786)	$ 17,324

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

(b) *Represents cash collateral posted and received. Securities collateral posted for derivative transactions that is reflected in Fixed maturity securities in the Consolidated Balance Sheet, and collateral received, not reflected in the Consolidated Balance Sheet, were $1.2 billion and $87 million, respectively, at March 31, 2012 and $1.8 billion and $100 million, respectively, at December 31, 2011.*

(c) *Included in Level 1 are $8.2 billion and $12.4 billion at March 31, 2012 and December 31, 2011, respectively, of AIA shares publicly traded on the Hong Kong Stock Exchange. Approximately 3 percent of the fair value of the assets recorded as Level 3 relate to various private equity, real estate, hedge fund and fund-of-funds investments that are consolidated by AIG at both March 31, 2012 and December 31, 2011. AIG's ownership in these funds represented 63.6 percent, or $0.9 billion, of Level 3 assets at March 31, 2012 and 57.3 percent, or $0.8 billion, of Level 3 assets at December 31, 2011.*

(d) *Included in Level 2 is the fair value of securities purchased under agreements to resell of $0.7 billion and $0.1 billion at March 31, 2012 and December 31, 2011, respectively.*

(e) *Included in Level 3 is the fair value derivative liability of $2.6 billion and $3.2 billion at March 31, 2012 and December 31, 2011, respectively, on the super senior credit default swap portfolio.*

(f) *Includes Guaranteed Investment Agreements (GIAs), notes, bonds, loans and mortgages payable.*

(g) *Included in Level 2 is the fair value of securities sold under agreements to repurchase and securities and spot commodities sold but not yet purchased, of $1.4 billion and $53 million, respectively, at March 31, 2012. Included in Level 2 is the fair value of securities sold under agreements to repurchase, securities and*

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

spot commodities sold but not yet purchased and trust deposits and deposits due to banks and other depositors, of $0.6 billion, $144 million and $6 million, respectively, at December 31, 2011.

TRANSFERS OF LEVEL 1 AND LEVEL 2 ASSETS AND LIABILITIES

AIG's policy is to record transfers of assets and liabilities between Level 1 and Level 2 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. Assets are transferred out of Level 1 when they are no longer transacted with sufficient frequency and volume in an active market. Conversely, assets are transferred from Level 2 to Level 1 when transaction volume and frequency are indicative of an active market. AIG had no material transfers between Level 1 and Level 2 during the three-month period ended March 31, 2012.

CHANGES IN LEVEL 3 RECURRING FAIR VALUE MEASUREMENTS

The following tables present changes during the three-month period ended March 31, 2012 and 2011 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 those periods related to the Level 3 assets and liabilities that remained in the Consolidated Balance Sheet at March 31, 2012 and 2011:

(in millions)	Fair value Beginning of Period[(a)]	Net Realized and Unrealized Gains (Losses) Included in Income	Accumulated Other Comprehensive Income (Loss)	Purchases, Sales, Issues and Settlements, Net	Gross Transfers in	Gross Transfers out	Fair value End of Period	Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period
Three Months Ended March 31, 2012								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 960	$ 1	$ 16	$ 100	$ -	$ (23)	$ 1,054	$ -
Non-U.S. governments	9	-	8	(2)	-	-	15	-
Corporate debt	1,935	(16)	76	(3)	291	(960)	1,323	-
RMBS	10,877	(70)	793	1,326	348	(34)	13,240	-
CMBS	3,955	(69)	287	11	31	(42)	4,173	-
CDO/ABS	4,220	14	177	70	438	(37)	4,882	-
Total bonds available for sale	21,956	(140)	1,357	1,502	1,108	(1,096)	24,687	-
Bond trading securities:								
Corporate debt	7	-	-	(2)	-	-	5	-
RMBS	303	33	-	(19)	-	(3)	314	39
CMBS	554	33	-	(135)	32	(51)	433	85
CDO/ABS	8,432	1,621	-	(1,637)	-	-	8,416	2,122
Total bond trading securities	9,296	1,687	-	(1,793)	32	(54)	9,168	2,246

Equity securities available for sale:								
Common stock	57	14	(12)	(14)	5	-	50	-
Preferred stock	99	2	8	8	-	(11)	106	-
Total equity securities available for sale	156	16	(4)	(6)	5	(11)	156	-
Mortgage and other loans receivable	1	-	-	-	-	-	1	-
Other invested assets	6,618	(147)	210	101	742	(338)	7,186	(4)
Total	$ 38,027	$ 1,416	$ 1,563	$ (196)	$ 1,887	$ (1,499)	$ 41,198	$ 2,242
Liabilities:								
Policyholder contract deposits	$ (918)	$ 139	$ -	$ (3)	$ -	$ -	$ (782)	$ (144)
Derivative liabilities, net:								
Interest rate contracts	785	-	-	(7)	-	-	778	(23)
Foreign exchange contracts	2	-	-	(2)	-	-	-	-
Equity contracts	28	12	-	2	(2)	-	40	10
Commodity contracts	2	-	-	-	-	-	2	-
Credit contracts	(3,273)	(143)	-	711	-	-	(2,705)	(525)
Other contracts	33	(410)	9	412	(81)	-	(37)	24
Total derivative liabilities, net	(2,423)	(541)	9	1,116	(83)	-	(1,922)	(514)
Other long-term debt(b)	(508)	(110)	(77)	114	-	6	(575)	(104)
Total	$ (3,849)	$ (512)	$ (68)	$ 1,227	$ (83)	$ 6	$ (3,279)	$ (762)

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	*Fair value Beginning of Period*[(a)]	*Net Realized and Unrealized Gains (Losses) Included in Income*	*Accumulated Other Comprehensive Income (Loss)*	*Purchases, Sales, Issues and Settlements, Net*	*Gross Transfers In*	*Gross Transfers Out*	*Fair value End of Period*	*Changes in Unrealized Gains (Losses) Included in Income on Instruments Held at End of Period*
Three Months Ended March 31, 2011								
Assets:								
Bonds available for sale:								
Obligations of states, municipalities and political subdivisions	$ 609	$ -	$ 4	$ 112	$ -	$ (23)	$ 702	$ -
Non-U.S. governments	5	-	-	-	-	-	5	-
Corporate debt	2,262	(3)	7	(33)	226	(1,224)	1,235	-
RMBS	6,367	(81)	533	38	11	-	6,868	-
CMBS	3,604	(27)	664	72	25	(22)	4,316	-
CDO/ABS	4,241	20	238	(455)	72	(259)	3,857	-
Total bonds available for sale	17,088	(91)	1,446	(266)	334	(1,528)	16,983	-
Bond trading securities:								
Corporate debt	-	-	-	-	18	-	18	-
RMBS	91	2	-	6	-	-	99	2
CMBS	506	38	-	(58)	81	(44)	523	39
CDO/ABS	9,431	1,030	5	(5)	-	-	10,461	1,027
Total bond trading securities	10,028	1,070	5	(57)	99	(44)	11,101	1,068
Equity securities available for sale:								
Common stock	61	15	(2)	(15)	6	(2)	63	-
Preferred stock	64	(2)	-	1	-	-	63	-
Total equity securities available for sale	125	13	(2)	(14)	6	(2)	126	-
Equity securities trading	1	-	-	-	-	-	1	-
Other invested assets	7,414	53	343	(350)	-	(390)	7,070	(192)
Total	$ 34,656	$ 1,045	$ 1,792	$ (687)	$ 439	$ (1,964)	$ 35,281	$ 876
Liabilities:								
Policyholder contract deposits	$ (445)	$ 79	$ -	$ (3)	$ -	$ -	$ (369)	$ (93)
Derivative liabilities, net:								
Interest rate contracts	732	(116)	-	3	-	-	619	(25)
Foreign exchange contracts	16	-	-	-	-	-	16	-
Equity contracts	22	(7)	-	38	-	(19)	34	(7)
Commodity contracts	23	3	-	(11)	-	-	15	2
Credit contracts	(3,798)	382	-	(4)	-	-	(3,420)	381

Other contracts	(112)	4	25	50	-	27	(6)	(70)
Total derivatives liabilities, net	(3,117)	266	25	76	-	8	(2,742)	281
Other long-term debt[b]	(982)	(54)	-	61	(21)	-	(996)	(42)
Total	$ (4,544)	$ 291	$ 25	$ 134	$ (21)	$ 8	$ (4,107)	$ 146

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

(b) *Includes GIAs, notes, bonds, loans and mortgages payable.*

Net realized and unrealized gains and losses related to Level 3 items shown above are reported in the Consolidated Statement of Operations as follows:

(in millions)	**Net Investment Income**	**Net Realized Capital Gains (Losses)**	**Other Income**	**Total**
Three Months Ended March 31, 2012				
Bonds available for sale	**$ 231**	**$ (375)**	**$ 4**	**$ (140)**
Bond trading securities	**1,549**	**-**	**138**	**1,687**
Equity securities available for sale	**-**	**16**	**-**	**16**
Other invested assets	**(14)**	**(132)**	**(1)**	**(147)**
Policyholder contract deposits	**-**	**139**	**-**	**139**
Derivative liabilities, net	**(1)**	**19**	**(559)**	**(541)**
Other long-term debt	**-**	**-**	**(110)**	**(110)**
Three Months Ended March 31, 2011				
Bonds available for sale	$ 81	$ (176)	$ 4	$ (91)
Bond trading securities	1,001	-	69	1,070
Equity securities available for sale	-	13	-	13
Other invested assets	46	(15)	22	53
Policyholder contract deposits	-	79	-	79
Derivative liabilities, net	-	(54)	320	266
Other long-term debt	-	-	(54)	(54)

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The following table presents the gross components of purchases, sales, issues and settlements, net, shown above:

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issues and Settlements, Net[(a)]
Three Months Ended March 31, 2012				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 108	$ (8)	$ -	$ 100
Non-U.S. governments	-	(2)	-	(2)
Corporate debt	61	(1)	(63)	(3)
RMBS	1,912	(94)	(492)	1,326
CMBS	126	(64)	(51)	11
CDO/ABS	317	(4)	(243)	70
Total bonds available for sale	2,524	(173)	(849)	1,502
Bond trading securities:				
Corporate debt	-	-	(2)	(2)
RMBS	-	-	(19)	(19)
CMBS	113	(57)	(191)	(135)
CDO/ABS	-	(310)	(1,327)	(1,637)
Total bond trading securities	113	(367)	(1,539)	(1,793)
Equity securities available for sale:				
Common stock	-	(14)	-	(14)
Preferred stock	11	-	(3)	8
Total equity securities available for sale	11	(14)	(3)	(6)
Other invested assets	266	(4)	(161)	101
Total assets	$ 2,914	$ (558)	$ (2,552)	$ (196)
Liabilities:				
Policyholder contract deposits	$ -	$ (6)	$ 3	$ (3)
Derivative liabilities, net:				
Interest rate contracts	-	-	(7)	(7)
Foreign exchange contracts	-	-	(2)	(2)
Equity contracts	2	-	-	2
Credit contracts	-	-	711	711
Other contracts	-	-	412	412
Total derivative liabilities, net	2	-	1,114	1,116
Other long-term debt[(b)]	-	-	114	114
Total liabilities	$ 2	$ (6)	$ 1,231	$ 1,227

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Purchases	Sales	Settlements	Purchases, Sales, Issues and Settlements, Net[(a)]
Three Months Ended March 31, 2011				
Assets:				
Bonds available for sale:				
Obligations of states, municipalities and political subdivisions	$ 113	$ -	$ (1)	$ 112
Corporate debt	8	(19)	(22)	(33)
RMBS	317	(13)	(266)	38
CMBS	142	-	(70)	72
CDO/ABS	65	-	(520)	(455)
Total bonds available for sale	645	(32)	(879)	(266)
Bond trading securities:				
RMBS	-	-	6	6
CMBS	-	(5)	(53)	(58)
CDO/ABS	3	-	(8)	(5)
Total bond trading securities	3	(5)	(55)	(57)
Equity securities available for sale:				
Common stock	-	(15)	-	(15)
Preferred stock	-	-	1	1
Mutual funds	-	-	-	-
Total equity securities available for sale	-	(15)	1	(14)
Other invested assets	114	(12)	(452)	(350)
Total assets	$ 762	$ (64)	$ (1,385)	$ (687)
Liabilities:				
Policyholder contract deposits	$ -	$ (9)	$ 6	$ (3)
Derivative liabilities, net:				
Interest rate contracts	-	-	3	3
Equity contracts	39	-	(1)	38
Commodity contracts	-	-	(11)	(11)
Credit contracts	-	-	(4)	(4)
Other contracts	-	-	50	50
Total derivative liabilities, net	39	-	37	76
Other long-term debt[(b)]	-	-	61	61
Total liabilities	$ 39	$ (9)	$ 104	$ 134

(a) *There were no issues during the three-month periods ended March 31, 2012 and 2011.*

(b) *Includes GIAs, notes, bonds, loans and mortgages payable.*

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, 2012 and 2011 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).

Transfers of Level 3 Assets and Liabilities

AIG's policy is to record transfers of assets and liabilities into or out of Level 3 at their fair values as of the end of each reporting period, consistent with the date of the determination of fair value. As a result, the Net

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

realized and unrealized gains (losses) included in income or other comprehensive income and as shown in the table above excludes $58 million of net losses related to assets and liabilities transferred into Level 3 during the three-month period ended March 31, 2012, and includes $27 million of net gains related to assets and liabilities transferred out of Level 3 during the three-month period ended March 31, 2012.

Transfers of Level 3 Assets

During the three-month period ended March 31, 2012, transfers into Level 3 included certain residential mortgage-backed securities (RMBS), asset-backed securities (ABS), private placement corporate debt and certain private equity funds and hedge funds. Transfers into Level 3 for certain RMBS and certain ABS were related to decreased observations of market transactions and price information for those securities. The transfers into Level 3 of investments in certain other RMBS were due to a decrease in market transparency, downward credit migration and an overall increase in price disparity for certain individual security types. Transfers into Level 3 for private placement corporate debt and certain other ABS were primarily the result of limited market pricing information that required AIG to determine fair value for these securities based on inputs that are adjusted to better reflect AIG's own assumptions regarding the characteristics of a specific security or associated market liquidity. Certain private equity fund and hedge fund investments were transferred into Level 3 due to these investments being carried at fair value and no longer being accounted for using the equity method of accounting, consistent with the changes to AIG's ownership and lack of ability to exercise significant influence over the respective investments. Other hedge fund investments were transferred into Level 3 as a result of limited market activity due to fund-imposed redemption restrictions.

Assets are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset, a specific event, one or more significant input(s) becoming observable or a long-term interest rate significant to a valuation becoming short-term and thus observable. In addition, transfers out of Level 3 also occur when investments are no longer carried at fair value as the result of a change in the applicable accounting methodology, given changes in the nature and extent of AIG's ownership interest. During the three-month period ended March 31, 2012, transfers out of Level 3 primarily related to investments in private placement corporate debt and certain private equity funds and hedge funds. Transfers out of Level 3 for private placement corporate debt were primarily the result of AIG using observable pricing information that appropriately reflects the fair value of those securities without the need for adjustment based on AIG's own assumptions regarding the characteristics of a specific security or the current liquidity in the market. Certain private equity funds and hedge funds were transferred out of Level 3, substantially all attributable to the hedge funds no longer being subject to fund-imposed redemption restrictions.

Transfers of Level 3 Liabilities

As AIG presents carrying values of its derivative positions on a net basis in the table above, transfers into Level 3 liabilities, which totaled approximately $83 million during the three-month period ended March 31, 2012, primarily related to certain derivative assets transferred out of Level 3 because of the presence of observable inputs on certain forward commitments. Other transfers into Level 3 liabilities were due to movement in market variables. During the three-month period ended March 31, 2012, there were no significant transfers out of Level 3 liabilities.

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 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.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

FAIR VALUE MEASUREMENTS ON A NON-RECURRING BASIS

See Notes 2(c), (e), (f) and (g) to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for additional information about how AIG measures the fair value of certain assets on a non-recurring basis and how AIG tests various asset classes for impairment.

The following table presents assets (held as of the dates presented, but excluding discontinued operations) measured at fair value on a non-recurring basis at the time of impairment and the related impairment charges recorded during the periods presented:

	Assets at Fair Value Non-Recurring Basis				Impairment Charges Three Months Ended March 31,	
(in millions)	Level 1	Level 2	Level 3	Total	2012	2011
March 31, 2012						
Investment real estate	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	$ 12
Other investments	**-**	**-**	**1,621**	**1,621**	**93**	106
Aircraft*	**-**	**-**	**94**	**94**	**54**	114
Other assets	**-**	**-**	**18**	**18**	**8**	-
Total	**$ -**	**$ -**	**$ 1,733**	**$ 1,733**	**$ 155**	$ 232
December 31, 2011						
Investment real estate	$ -	$ -	$ 457	$ 457		
Other investments	-	-	2,199	2,199		
Aircraft	-	-	1,683	1,683		
Other assets	-	-	4	4		
Total	$ -	$ -	$ 4,343	$ 4,343		

* *Aircraft impairment charges include fair value adjustments on aircraft.*

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS

The table below presents information about the significant unobservable inputs used for recurring fair value measurements for certain Level 3 instruments, and includes only those instruments for which information about the inputs is reasonably available to AIG, such as data from pricing vendors and from internal valuation models. Because not all Level 3 instruments have input information reasonably available to AIG, balances shown below may not equal total amounts reported for such Level 3 assets and liabilities:

(in millions)	Fair Value at March 31, 2012	Valuation Technique	Unobservable Input[a]	Range/ (Weighted Average)[a]
Assets:				
Corporate debt	$ 685	Discounted cash flow	Yield[b]	2.37% - 11.08% (6.73%)
Residential mortgage backed securities	12,326	Discounted cash flow	Constant prepayment rate[c]	0.00% - 16.89% (8.02%)
			Loss severity[c]	44.10% - 79.01% (61.56%)
			Constant default rate[c]	4.34% - 13.83% (9.09%)
			Yield[c]	4.09% - 11.80% (7.95%)
Certain CDO/ABS	1,961	Discounted cash flow	Constant prepayment rate[c]	0.00% - 49.80% (18.55%)
			Loss severity[c]	0.00% - 19.46% (3.22%)
			Constant default rate[c]	0.00% - 2.29% (0.38%)
			Yield[c]	2.29% - 6.57% (4.43%)
Commercial mortgage backed securities	2,665	Discounted cash flow	Yield[c]	0.00% - 24.52% (11.58%)
Maiden Lane III	6,916	Discounted cash flow	Yield[b]	10.93%
CDO/ABS Direct Investment book	1,579	Binomial Expansion Technique (BET)	Recovery rates[b]	3% - 65% (33%)
			Diversity score[b]	5 - 75 (10)
			Weighted average life[b]	1.40-9.65 years (4.60 years)
Liabilities :				
Policyholder contract deposits GMWB	509	Discounted cash flow	Equity implied volatility[b]	5.0% - 40.0%
			Base lapse rates[b]	1.0% - 40.0%
			Dynamic lapse rates[b]	0.2% - 60.0%
			Mortality rates[b]	0.5% - 40.0%
			Utilization rates[b]	0.5% - 25.0%
Derivative Liabilities Credit contracts	1,822	BET	Recovery rates[b]	3% - 37% (17%)
			Diversity score[b]	6 - 44 (13)

Weighted average life(b)	5.27-9.65 years (6.41 years)

(a) *The unobservable inputs and ranges for the constant prepayment rate, loss severity and constant default rate relate to each of the individual underlying mortgage loans that comprise the entire portfolio of securities in the RMBS and CDO securitization vehicles and not necessarily to the securitization vehicle bonds (tranches) purchased by AIG. The ranges of these inputs do not directly correlate to changes in the fair values of the tranches purchased by AIG because there are other factors relevant to the specific tranches owned by AIG including, but not limited to, purchase price, position in the waterfall, senior versus subordinated position and attachment points.*

(b) *Represents discount rates, estimates and assumptions that AIG believes would be used by market participants when valuing these assets and liabilities.*

(c) *Information received from independent third-party valuation service providers.*

The ranges of reported inputs for Corporate debt, RMBS, CDO/ABS, and CMBS valued using a discounted cash flow technique consist of +/-one standard deviation in either direction from the value-weighted average. The preceding table does not give effect to AIG's risk management practices that might offset risks inherent in these investments.

Sensitivity to Changes in Unobservable Inputs

AIG considers unobservable inputs to be those for which market data is not available and that are developed using the best information available to AIG about the assumptions that market participants would use when pricing the asset or liability. Relevant inputs vary depending on the nature of the instrument being measured at fair value. The effect of a change in a particular assumption in the sensitivity analysis below is considered independently of changes in any other assumptions. In practice, simultaneous changes in assumptions may not always have a linear effect on the inputs discussed above.

Corporate Debt

Corporate debt securities included in Level 3 are primarily private placement issuances that are not traded in active markets or that are subject to transfer restrictions. Fair value measurements consider illiquidity and non-transferability. When observable price quotations are not available, fair value is determined based on discounted cash flow models using discount rates based on credit spreads, yields or price levels of publicly-traded debt of the issuer or other comparable securities, considering illiquidity and structure. The significant unobservable input used in the fair value measurement of corporate debt is the yield. The yield is affected by the market movements in credit spreads and U.S. Treasury yields. In addition, the migration in credit quality of a given security generally has a corresponding effect on the fair value measurement of the securities. For example, a downward migration of credit quality would increase spreads. Holding U.S. Treasury rates constant, an increase in corporate credit spreads would decrease the fair value of corporate debt.

RMBS and Certain CDO/ABS

The significant unobservable inputs used in fair value measurements of residential mortgage backed securities and certain CDO/ABS valued by third-party valuation service providers are constant prepayment rates (CPR), constant default rates (CDR), and loss severity. Changes in any of the significant unobservable inputs may affect other inputs used in determining fair value. A change in the assumptions used for the probability of default will generally be accompanied by a corresponding change in the assumption used for the loss severity and an inverse change in the assumption used for prepayment rates. Changes in fair value based on variations in assumptions generally cannot be extrapolated because the relationship between the directional change of each input is not usually linear.

CMBS

The significant unobservable input used in fair value measurements for commercial mortgage backed securities is the yield. Prepayment assumptions for each mortgage pool are factored into the yield. CMBS generally feature a lower degree of prepayment risk than RMBS because commercial mortgages generally contain a penalty for prepayment. Increases in the yield would decrease the fair value of CMBS.

Maiden Lane III

Since inception, AIG's interest in ML III has been valued using a discounted cash flow methodology that (i) uses the estimated future cash flows and the fair value of the ML III assets, (ii) allocates the estimated future cash flows according to the ML III waterfall, and (iii) determines the discount rate to be applied to AIG's interest in ML III by reference to the discount rate implied by the estimated value of ML III assets and the estimated future cash flows of AIG's interest in the capital structure. Estimated cash flows and discount rates used in the

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

valuations are validated, to the extent possible, using market observable information for securities with similar asset pools, structure and terms.

The fair value of AIG's interest in ML III is most affected by changes in the discount rates and changes in the estimated future collateral cash flows used in the valuation. In general, an increase in the discount rate will lead to a decrease in the value of the portfolio and vice versa. The changes, however, are asymmetrical with decreases in discount rates having a more pronounced effect on the value of the ML III portfolio. Changes in estimated future cash flows for ML III are the result of changes in interest rates and their effect on the underlying floating rate securities as well as expectations of defaults, recoveries and prepayments on underlying loans. Changes in estimated future cash flows have an almost symmetrical and almost linear effect on the value of ML III.

Interest rates are generally indexed to the London Interbank Offered Rate (LIBOR). LIBOR interest rate curve changes are determined based on observable prices, interpolated or extrapolated to derive a LIBOR curve for a specific maturity term as necessary. The spreads over LIBOR used to value the ML III interests can change as a result of changes in market expectations about the future performance of this investment as well as changes in the risk premium that market participants would demand at the time of the transactions.

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

Three Months Ended March 31, 2012 *(in millions)*		**Maiden Lane III Fair Value Change**
Discount Rates:		
200 basis point increase	$	(717)
200 basis point decrease		824
400 basis point increase		(1,346)
400 basis point decrease		1,777
Estimated Future Cash Flows:		
10% increase		711
10% decrease		(720)
20% increase		1,415
20% decrease		(1,451)

AIG believes that the ranges of discount rates used in these analyses are reasonable on the basis of implied spread volatilities of similar collateral securities. The ranges of estimated future cash flows were determined on the basis of historical variability in the estimated cash flows. Therefore, the fair value of AIG's interest in ML III is likely to vary, perhaps materially, from the amounts estimated.

On April 26, 2012, the FRBNY announced that it had sold $7.5 billion of certain assets of ML III pursuant to a competitive bid process that it conducted. If AIG had adopted a liquidation valuation methodology at March 31, 2012, the impact would have increased the fair value of AIG's interest in ML III by approximately $450 million.

Because the announcement of the asset auction and the auction itself occurred after March 31, 2012, AIG believes a change in the fair value methodology used for its interest in ML III is not appropriate at March 31, 2012. Adjustments to the fair value of AIG's interest in ML III are recorded in the Consolidated Statement of Operations in Net investment income for AIG's Other operations.

CDO/ABS Direct Investment book

The significant unobservable inputs used for certain CDO/ABS securities valued using the BET are recovery rates, diversity score, and the weighted average life of the portfolio. An increase in recovery rates and diversity score will have a directionally similar corresponding impact on the fair value measurement of the portfolio. An increase in the weighted average life will decrease the fair value.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Policyholder contract deposits

The significant unobservable inputs used for embedded derivatives in policyholder contract deposits measured at fair value, mainly guaranteed minimum withdrawal benefits (GMWB) for variable annuity products, are equity volatility, mortality rates, lapse rates and utilization rates. In general, increases in volatilities and utilization rates will increase the fair value, while increases in lapse rates and mortality rates will decrease the fair value of the liability associated with the GMWB.

Derivative liabilities credit contracts

The significant unobservable inputs used for Derivatives liabilities credit contracts are recovery rates, diversity scores, and the weighted average life of the portfolio. AIG non-performance risk is also considered in the measurement of the liability. See Note 6 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for a discussion of AIG's accounting policies and procedures regarding incorporation of AIG's own credit risk in fair value measurements.

An increase in recovery rates and diversity score will decrease the fair value of the liability. An increase in the weighted average life will have a directionally similar corresponding effect on the fair value measurement of the liability.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

INVESTMENTS IN CERTAIN ENTITIES CARRIED AT FAIR VALUE USING NET ASSET VALUE PER SHARE

The following table includes information related to AIG's investments in certain other invested assets, including private equity funds, hedge funds and other alternative investments that calculate net asset value per share (or its equivalent). For these investments, which are measured at fair value on a recurring or non-recurring basis, AIG uses the net asset value per share as a practical expedient to measure fair value.

		March 31, 2012		December 31, 2011	
(in millions)	**Investment Category Includes**	**Fair Value Using Net Asset Value**	**Unfunded Commitments**	**Fair Value Using Net Asset Value**	**Unfunded Commitments**
Investment Category					
Private equity funds:					
Leveraged buyout	Debt and/or equity investments made as part of a transaction in which assets of mature companies are acquired from the current shareholders, typically with the use of financial leverage	**$ 3,244**	**$ 900**	$ 3,185	$ 945
Non-U.S.	Investments that focus primarily on Asian and European based buyouts, expansion capital, special situations, turnarounds, venture capital, mezzanine and distressed opportunities strategies	**171**	**54**	165	57
Venture capital	Early-stage, high-potential, growth companies expected to generate a return through an eventual realization event, such as an initial public offering or sale of the company	**301**	**37**	316	39
Distressed	Securities of companies that are already in default, under bankruptcy protection, or troubled	**189**	**38**	182	42
Other	Real estate, energy, multi-strategy, mezzanine, and industry-focused strategies	**372**	**150**	252	98
Total private equity funds		**4,277**	**1,179**	4,100	1,181
Hedge funds:					
Event-driven	Securities of companies undergoing material structural changes, including mergers, acquisitions and other reorganizations	**872**	**2**	774	2
Long-short	Securities that the manager believes are undervalued, with corresponding short positions to hedge market risk	**1,097**	**-**	927	-
Relative value	Funds that seek to benefit from market inefficiencies and value discrepancies between related investments	**48**	**-**	52	-
Distressed	Securities of companies that are already in default, under bankruptcy protection or troubled	**289**	**-**	272	10
Other	Non-U.S. companies, futures and commodities, macro and multi-strategy and industry-focused strategies	**736**	**-**	748	-
Total hedge funds		**3,042**	**2**	2,773	12
Total		$ **7,319**	$ **1,181**	$ 6,873	$ 1,193

At March 31, 2012, private equity fund investments included above are not redeemable during the lives of the funds and have expected remaining lives that extend in some cases more than 10 years. At that date, 44 percent of the total above had expected remaining lives of less than three years, 54 percent between three and seven years and 2 percent between seven and 10 years. Expected lives are based upon legal maturity, which can be extended at the fund manager's discretion, typically in one-year increments.

At March 31, 2012, hedge fund investments included above are redeemable monthly (10 percent), quarterly (35 percent), semi-annually (25 percent) and annually (30 percent), with redemption notices ranging from 1 day to 180 days. More than 62 percent of these hedge fund investments require redemption notices of less than 90 days. Investments representing approximately 55 percent of the value of the hedge fund investments cannot be redeemed, either in whole or in part, because the investments include various restrictions. The majority of these restrictions were put in place prior to 2009 and do not have stated end dates. The restrictions that have

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

pre-defined end dates are generally expected to be lifted by the end of 2015. The partial restrictions relate to certain hedge funds that hold at least one investment that the fund manager deems to be illiquid.

FAIR VALUE OPTION

The following table presents the gains or losses recorded related to the eligible instruments for which AIG elected the fair value option:

Three Months Ended March 31,	**Gain (Loss)**	
(in millions)	**2012**	**2011**
Assets:		
Mortgage and other loans receivable	**$ 22**	$ (5)
Bonds and equity securities	**644**	902
Trading ML II interest	**246**	251
Trading ML III interest	**1,252**	744
Retained interest in AIA	**1,795**	1,062
Short-term investments and other invested assets and Other assets	**4**	16
Liabilities:		
Other long-term debt[(a)]	**(446)**	(44)
Other liabilities	**(48)**	(112)
Total gain[(b)]	**$ 3,469**	$ 2,814

(a) *Includes GIAs, notes, bonds, loans and mortgages payable.*

(b) *Excludes discontinued operation gains or losses on instruments that were required to be carried at fair value in 2011. For instruments required to be carried at fair value, AIG recognized gains of $0.6 billion and $1.0 billion for the three months ended March 31, 2012 and 2011, 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 was not elected.*

See Note 2(a) to the Consolidated Financial Statements in the 2011 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.

During the three-month periods ended March 31, 2012 and 2011, AIG recognized losses of $558 million and $41 million, 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 cash 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:

	March 31, 2012			**December 31, 2011**		
(in millions)	**Fair Value**	**Outstanding Principal**	**Difference**	**Fair Value**	**Outstanding Principal**	**Difference**

		Amount								**Amount**		
Assets:												
Mortgage and other loans receivable	**$**	**114**	**$**	**139**	**$**	**(25)**	$	107	$	150	$	(43)
Liabilities:												
Other long-term debt*	**$**	**10,580**	**$**	**8,330**	**$**	**2,250**	$	10,766	$	8,624	$	2,142

* *Includes GIAs, notes, bonds, loans and mortgages payable.*

At March 31, 2012 and December 31, 2011, there were no significant mortgage or other loans receivable for which the fair value option was elected that were 90 days or more past due and in non-accrual status.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

FAIR VALUE INFORMATION ABOUT FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE

The following table presents the carrying value and estimated fair value of AIG's financial instruments not measured at fair value and indicates the level of the estimated fair value measurement based on the levels of the inputs used:

	Estimated Fair Value				Carrying
(in millions)	Level 1	Level 2	Level 3	Total	Value
March 31, 2012					
Assets:					
Mortgage and other loans receivable	**$ -**	**$ 668**	**$ 20,290**	**$ 20,958**	**$ 19,405**
Other invested assets	**-**	**462**	**4,098**	**4,560**	**4,864**
Short-term investments	**-**	**14,351**	**-**	**14,351**	**16,381**
Cash	**1,315**	**-**	**-**	**1,315**	**1,315**
Liabilities:					
Policyholder contract deposits associated with investment-type contracts	**-**	**281**	**123,597**	**123,878**	**107,019**
Other liabilities	**-**	**-**	**476**	**476**	**476**
Long-term debt	**14,991**	**49,523**	**2,700**	**67,214**	**65,517**
December 31, 2011					
Assets:					
Mortgage and other loans receivable				$ 20,494	$ 19,382
Other invested assets				3,390	4,701
Short-term investments				16,657	16,659
Cash				1,474	1,474
Liabilities:					
Policyholder contract deposits associated with investment-type contracts				122,125	106,950
Long-term debt				61,295	64,487

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

5. INVESTMENTS

SECURITIES AVAILABLE FOR SALE

The following table presents the amortized cost or cost and fair value of AIG's available for sale securities:

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(a)]
March 31, 2012					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 4,456	$ 332	$ (2)	$ 4,786	$ -
Obligations of states, municipalities and political subdivisions	35,096	2,657	(71)	37,682	(25)
Non-U.S. governments	25,106	1,066	(50)	26,122	-
Corporate debt	135,350	12,040	(910)	146,480	134
Mortgage-backed, asset-backed and collateralized:					
RMBS	33,956	1,865	(770)	35,051	191
CMBS	8,274	470	(681)	8,063	(151)
CDO/ABS	7,926	568	(316)	8,178	103
Total mortgage-backed, asset-backed and collateralized	50,156	2,903	(1,767)	51,292	143
Total bonds available for sale[(b)]	250,164	18,998	(2,800)	266,362	252
Equity securities available for sale:					
Common stock	1,636	1,268	(99)	2,805	-
Preferred stock	87	67	-	154	-
Mutual funds	59	8	-	67	-
Total equity securities available for sale	1,782	1,343	(99)	3,026	-
Other invested assets carried at fair value[(c)]	5,220	1,783	(157)	6,846	-
Total	$ 257,166	$ 22,124	$ (3,056)	$ 276,234	$ 252

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(in millions)	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments in AOCI[(a)]
December 31, 2011					
Bonds available for sale:					
U.S. government and government sponsored entities	$ 5,661	$ 418	$ (1)	$ 6,078	$ -
Obligations of states, municipalities and political subdivisions	35,017	2,554	(73)	37,498	(28)
Non-U.S. governments	24,843	994	(102)	25,735	-
Corporate debt	134,699	11,844	(1,725)	144,818	115
Mortgage-backed, asset-backed and collateralized:					
RMBS	34,780	1,387	(1,563)	34,604	(716)
CMBS	8,449	470	(973)	7,946	(276)
CDO/ABS	7,321	454	(473)	7,302	49
Total mortgage-backed, asset-backed and collateralized	50,550	2,311	(3,009)	49,852	(943)
Total bonds available for sale[(b)]	250,770	18,121	(4,910)	263,981	(856)
Equity securities available for sale:					
Common stock	1,682	1,839	(100)	3,421	-
Preferred stock	83	60	-	143	-
Mutual funds	55	6	(1)	60	-
Total equity securities available for sale	1,820	1,905	(101)	3,624	-
Other invested assets carried at fair value[(c)]	5,155	1,611	(269)	6,497	-
Total	$ 257,745	$ 21,637	$ (5,280)	$ 274,102	$ (856)

(a) *Represents the amount of other-than-temporary impairment losses recognized in Accumulated other comprehensive income. Amount includes unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.*

(b) *At March 31, 2012 and December 31, 2011, bonds available for sale held by AIG that were below investment grade or not rated totaled $27.8 billion and $24.2 billion, respectively.*

(c) *Represents private equity and hedge fund investments carried at fair value for which unrealized gains and losses are required to be recognized in other comprehensive income.*

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Unrealized Losses on Securities Available for Sale

The following table summarizes the fair value and gross unrealized losses on AIG's available for sale securities, aggregated by major investment category and length of time that individual securities have been in a continuous unrealized loss position:

	Less than 12 Months		12 Months or More		Total	
(in millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
March 31, 2012						
Bonds available for sale:						
U.S. government and government sponsored entities	**$ 159**	**$ 1**	**$ 5**	**$ 1**	**$ 164**	**$ 2**
Obligations of states, municipalities and political subdivisions	**996**	**24**	**276**	**47**	**1,272**	**71**
Non-U.S. governments	**2,366**	**20**	**333**	**30**	**2,699**	**50**
Corporate debt	**11,962**	**378**	**5,015**	**532**	**16,977**	**910**
RMBS	**4,322**	**242**	**2,933**	**528**	**7,255**	**770**
CMBS	**1,527**	**187**	**1,373**	**494**	**2,900**	**681**
CDO/ABS	**1,052**	**43**	**1,681**	**273**	**2,733**	**316**
Total bonds available for sale	**22,384**	**895**	**11,616**	**1,905**	**34,000**	**2,800**
Equity securities available for sale:						
Common stock	**646**	**99**	**-**	**-**	**646**	**99**
Preferred stock	**2**	**-**	**-**	**-**	**2**	**-**
Mutual funds	**3**	**-**	**-**	**-**	**3**	**-**
Total equity securities available for sale	**651**	**99**	**-**	**-**	**651**	**99**
Total	**$ 23,035**	**$ 994**	**$ 11,616**	**$ 1,905**	**$ 34,651**	**$ 2,899**
December 31, 2011						
Bonds available for sale:						
U.S. government and government sponsored entities	$ 142	$ 1	$ -	$ -	$ 142	$ 1
Obligations of states, municipalities and political subdivisions	174	1	669	72	843	73
Non-U.S. governments	3,992	67	424	35	4,416	102
Corporate debt	18,099	937	5,907	788	24,006	1,725
RMBS	10,624	714	4,148	849	14,772	1,563
CMBS	1,697	185	1,724	788	3,421	973
CDO/ABS	1,680	50	1,682	423	3,362	473
Total bonds available for sale	36,408	1,955	14,554	2,955	50,962	4,910
Equity securities available for sale:						
Common stock	608	100	-	-	608	100
Preferred stock	6	-	-	-	6	-

Mutual funds	2	1	-	-	2	1
Total equity securities available for sale	616	101	-	-	616	101
Total	$ 37,024	$ 2,056	$ 14,554	$ 2,955	$ 51,578	$ 5,011

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

At March 31, 2012, AIG held 5,061 and 248 individual fixed maturity and equity securities, respectively, that were in an unrealized loss position, of which 1,734 individual fixed maturity securities, were in a continuous unrealized loss position for longer than 12 months. AIG did not recognize the unrealized losses in earnings on these fixed maturity securities at March 31, 2012, because management neither intends to sell the securities nor does it believe that it is more likely than not that it will be required to sell these securities before recovery of their amortized cost basis. Furthermore, management expects to recover the entire amortized cost basis of these securities. In performing this evaluation, management considered the recovery periods for securities in previous periods of broad market declines. For fixed maturity securities with significant declines, management performed fundamental credit analysis on a security-by-security basis, which included consideration of credit enhancements, expected defaults on underlying collateral, review of relevant industry analyst reports and forecasts and other available market data.

Contractual Maturities of Securities Available for Sale

The following table presents the amortized cost and fair value of fixed maturity securities available for sale by contractual maturity:

March 31, 2012	**Total Fixed Maturity Available for Sale Securities**		**Fixed Maturity Securities in a Loss Position**	
(in millions)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 10,047	$ 10,207	$ 1,299	$ 1,287
Due after one year through five years	57,759	60,423	7,061	6,818
Due after five years through ten years	69,670	74,753	7,245	6,917
Due after ten years	62,532	69,687	6,540	6,090
Mortgage-backed, asset-backed and collateralized	50,156	51,292	14,655	12,888
Total	$ 250,164	$ 266,362	$ 36,800	$ 34,000

Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

The following table presents the gross realized gains and gross realized losses from sales or redemptions of AIG's available for sale securities:

	2012		**2011**	
Three Months Ended March 31,	**Gross Realized**	**Gross Realized**	**Gross Realized**	**Gross Realized**
(in millions)	**Gains**	**Losses**	**Gains**	**Losses**
Fixed maturities	**$ 490**	**$ 16**	$ 188	$ 55
Equity securities	**451**	**3**	105	2
Total	**$ 941**	**$ 19**	$ 293	$ 57

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

For the three-month period ended March 31, 2012 and March 31, 2011, the aggregate fair value of available for sale securities sold was $10.9 billion and $11.5 billion, respectively which resulted in net realized capital gains of $0.9 billion and $0.2 billion, respectively.

TRADING SECURITIES

The following table presents the fair value of AIG's trading securities:

(in millions)	March 31, 2012 Fair Value	March 31, 2012 Percent of Total	December 31, 2011 Fair Value	December 31, 2011 Percent of Total
Fixed Maturities:				
U.S. government and government sponsored entities	**$ 7,456**	**30%**	$ 7,504	31%
Non-U.S. governments	**36**	**-**	35	-
Corporate debt	**1,093**	**4**	816	3
State, territories and political subdivisions	**236**	**1**	257	1
Mortgage-backed, asset-backed and collateralized:				
RMBS	**1,653**	**7**	1,648	7
CMBS	**1,713**	**7**	1,837	7
CDO/ABS and other collateralized	**5,378**	**22**	5,282	22
Total mortgage-backed, asset-backed and collateralized	**8,744**	**36**	8,767	36
ML II	**-**	**-**	1,321	5
ML III	**6,916**	**28**	5,664	23
Total fixed maturities	**24,481**	**99**	24,364	99
Equity securities	**123**	**1**	125	1
Total	**$ 24,604**	**100%**	$ 24,489	100%

EVALUATING INVESTMENTS FOR OTHER-THAN-TEMPORARY IMPAIRMENTS

For a discussion of AIG's policy for evaluating investments for other-than-temporary impairments, see Note 7 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K.

CREDIT IMPAIRMENTS

The following table presents a rollforward of the credit impairments recognized in earnings for available for sale fixed maturity securities held by AIG, and includes structured, corporate, municipal and sovereign fixed maturity securities:

Three Months Ended March 31, *(in millions)*	**2012**	**2011**

Balance, beginning of year	**$ 6,504**	$ 6,786
Increases due to:		
Credit impairments on new securities subject to impairment losses	**137**	52
Additional credit impairments on previously impaired securities	**307**	150
Reductions due to:		
Credit impaired securities fully disposed for which there was no prior intent or requirement to sell	**(270)**	(170)
Accretion on securities previously impaired due to credit*	**(222)**	(100)
Hybrid securities with embedded credit derivatives reclassified to Bond trading securities	**-**	(179)
Other	**8**	1
Balance, end of period	**$ 6,464**	$ 6,540

* *Represents accretion recognized due to changes in cash flows expected to be collected over the remaining expected term of the credit impaired securities as well as the accretion due to the passage of time.*

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Purchased Credit Impaired (PCI) Securities

Beginning in the second quarter of 2011, AIG purchased certain RMBS securities that had experienced deterioration in credit quality since their issuance. Management determined, based on its expectations as to the timing and amount of cash flows expected to be received, that it was probable at acquisition that AIG would not collect all contractually required payments, including both principal and interest and considering the effects of prepayments, for these PCI securities. At acquisition, the timing and amount of the undiscounted future cash flows expected to be received on each PCI security was determined based on management's best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. At acquisition, the difference between the undiscounted expected future cash flows of the PCI securities and the recorded investment in the securities represents the initial accretable yield, which is to be accreted into net investment income over their remaining lives on a level-yield basis. Additionally, the difference between the contractually required payments on the PCI securities and the undiscounted expected future cash flows represents the non-accretable difference at acquisition. Over time, based on actual payments received and changes in estimates of undiscounted expected future cash flows, the accretable yield and the non-accretable difference can change, as discussed further below.

On a quarterly basis, the undiscounted expected future cash flows associated with PCI securities are re-evaluated based on updates to key assumptions. Changes to undiscounted expected future cash flows due solely to the changes in the contractual benchmark interest rates on variable rate PCI securities will change the accretable yield prospectively. Declines in undiscounted expected future cash flows due to further credit deterioration as well as changes in the expected timing of the cash flows can result in the recognition of an other-than-temporary impairment charge, as PCI securities are subject to AIG's policy for evaluating investments for other-than-temporary impairment. Significant increases in undiscounted expected future cash flows for reasons other than interest rate changes are recognized prospectively as an adjustment to the accretable yield.

The following tables present information on AIG's PCI securities, which are included in bonds available for sale:

(in millions)		**At Date of Acquisition**
Contractually required payments (principal and interest)	$	18,379
Cash flows expected to be collected*		14,198
Recorded investment in acquired securities		9,080

* Represents undiscounted expected cash flows, including both principal and interest.

(in millions)		**March 31, 2012**		**December 31, 2011**
Outstanding principal balance	$	12,823	$	10,119
Amortized cost		8,170		7,006
Fair value		8,294		6,535

The following table presents activity for the accretable yield on PCI securities:

Three Months Ended March 31, 2012 ***(in millions)***		
Balance, beginning of period	$	4,135
Newly purchased PCI securities		1,222

Disposals	(47)
Accretion	(168)
Effect of changes in interest rate indices	(28)
Net reclassification from non-accretable difference, including effects of prepayments	32
Balance, end of period	$ 5,146

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

PLEDGED INVESTMENTS

Secured Financing and Similar Arrangements

AIG enters into financing transactions, whereby certain securities are transferred to financial institutions in exchange for cash or other liquid collateral. Securities transferred by AIG under these financing transactions may be sold or repledged by the counterparties. As collateral for the securities transferred by AIG, counterparties transfer assets, such as cash or high quality fixed maturity securities, and collateral levels are monitored daily and are generally maintained at an agreed-upon percentage of the fair value of the transferred securities during the life of the transactions. Where AIG receives fixed maturity securities as collateral, AIG does not have the right to sell or repledge this collateral unless an event of default occurs by the counterparties. At the termination of the transactions, AIG and its counterparties are obligated to return the collateral provided and the securities transferred, respectively. These transactions are treated as secured financing arrangements by AIG.

Secured financing transactions also include securities sold under agreements to repurchase (repurchase agreements), in which AIG transfers securities in exchange for cash, with an agreement by AIG to repurchase the same or substantially similar securities. In the majority of these repurchase agreements, the securities transferred by AIG may be sold or repledged by the counterparties.

Under the secured financing transactions described above, securities available for sale with a fair value of $4.4 billion and $2.3 billion at March 31, 2012 and December 31, 2011, respectively, and trading securities with a fair value of $4.5 billion and $0.7 billion at March 31, 2012 and December 31, 2011, respectively, were pledged to counterparties.

Prior to January 1, 2012, in the case of repurchase agreements where AIG did not obtain collateral sufficient to fund substantially all of the cost of purchasing identical replacement securities during the term of the contract (generally less than 90 percent of the security value), AIG accounted for the transaction as a sale of the security and reported the obligation to repurchase the security as a derivative contract. The fair value of securities transferred under repurchase agreements accounted for as sales was $1.8 billion and $2.1 billion at March 31, 2012 and December 31, 2011, respectively.

AIG also enters into agreements in which securities are purchased by AIG under agreements to resell (reverse repurchase agreements), which are accounted for as secured financing transactions and reported as short-term investments or other assets, depending on their terms. For these transactions, AIG takes possession of or obtains a security interest in the related securities, and AIG has the right to sell or repledge this collateral received. The fair value of securities collateral pledged to AIG was $7.4 billion and $6.8 billion at March 31, 2012 and December 31, 2011, respectively, of which $1.5 billion and $122 million was repledged by AIG.

Insurance Statutory and Other Deposits

Total carrying values of cash and securities deposited by AIG's insurance subsidiaries under requirements of regulatory authorities or other insurance-related arrangements, including certain annuity-related obligations and certain reinsurance agreements, were $9.0 billion and $9.8 billion at March 31, 2012 and December 31, 2011, respectively.

Other Pledges

Certain AIG subsidiaries are members of Federal Home Loan Banks (FHLBs), and such membership requires the members to own stock in these FHLBs. AIG subsidiaries owned $86 million and $77 million of stock in FHLBs at March 31, 2012 and December 31, 2011, respectively, which will be pledged to the FHLBs to the extent the member borrows via advances from the FHLBs. In addition, AIG has pledged securities available for sale with a fair value of $88 million at March 31, 2012 associated with advances from the FHLBs.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Generally, GIAs have provisions that require collateral to be posted by AIG upon a downgrade of AIG's long-term debt ratings or, at the election of AIG and as an alternative to posting collateral and subject to certain conditions, repayment by AIG of the transactions or the arrangement by AIG of a substitute guarantee of AIG's obligations by an obligor with higher long term debt ratings. The actual amount of collateral required to be posted to the counterparties in the event of such downgrades, and 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 and after the time of the downgrade. The fair value of trading securities pledged as collateral with respect to these obligations approximated $5.1 billion at both March 31, 2012 and December 31, 2011. This collateral primarily consists of securities of U.S. government and government sponsored entities and generally cannot be repledged or resold by the counterparties.

6. LENDING ACTIVITIES

The following table presents the composition of Mortgage and other loans receivable:

(in millions)		**March 31, 2012**		**December 31, 2011**
Commercial mortgages*	**$**	**13,764**	$	13,554
Life insurance policy loans		**3,022**		3,049
Commercial loans, other loans and notes receivable		**3,441**		3,626
Total mortgage and other loans receivable		**20,227**		20,229
Allowance for losses		**(708)**		(740)
Mortgage and other loans receivable, net	**$**	**19,519**	$	19,489

* *Commercial mortgages primarily represent loans for office, retail and industrial properties, with exposures in California and New York representing the largest geographic concentrations (approximately 24 percent and 14 percent, respectively, at March 31, 2012 and December 31, 2011). Over 98 percent of the commercial mortgages were current as to payments of principal and interest at March 31, 2012 and December 31, 2011.*

The following table presents the credit quality indicators for commercial mortgage loans:

March 31, 2012 *(dollars in millions)*	**Number of Loans**		**Class** Apartments		Offices		Retail		Industrial		Hotel		Others		Total	**Percent of Total $**
Credit Quality Indicator:																
In good standing	1,030	$	1,722	$	5,058	$	2,308	$	1,849	$	953	$	1,363	$	13,253	96%
Restructured[(a)]	7		49		205		7		-		-		21		282	2
90 days or less delinquent	10		-		-		-		-		-		9		9	-
>90 days delinquent or in process of foreclosure	11		-		99		-		44		-		77		220	2
Total[(b)]	1,058	$	1,771	$	5,362	$	2,315	$	1,893	$	953	$	1,470	$	13,764	100%
Valuation allowance		$	20	$	131	$	21	$	71	$	12	$	41	$	296	2%

(a) *Loans that have been modified in troubled debt restructurings and are performing according to their restructured terms. See discussion of troubled debt restructurings below.*

(b) *Does not reflect valuation allowances.*

ALLOWANCE FOR CREDIT LOSSES

Mortgage and other loans receivable are considered impaired when collection of all amounts due under contractual terms is not probable. For commercial mortgage loans in particular, the impairment is measured based on the fair value of underlying collateral, which is determined based on the present value of expected net future cash flows of the collateral, less estimated costs to sell. For other loans, the impairment may be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or based on the

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

loan's observable market price, where available. An allowance is typically established for the difference between the impaired value of the loan and its current carrying amount. Additional allowance amounts are established for incurred but not specifically identified impairments, based on the analysis of internal risk ratings and current loan values. Internal risk ratings are assigned based on the consideration of risk factors including past due status, debt service coverage, loan-to-value ratio or the ratio of the loan balance to the estimated value of the property, property occupancy, profile of the borrower and of the major property tenants, economic trends in the market where the property is located, and condition of the property. These factors and the resulting risk ratings also provide a basis for determining the level of monitoring performed at both the individual loan and the portfolio level. When all or a portion of a commercial mortgage loan is deemed uncollectible, the uncollectible portion of the carrying value of the loan is charged off against the allowance.

A significant majority of commercial mortgage loans in the portfolio are non-recourse loans and, accordingly, the only guarantees are for specific items that are exceptions to the non-recourse provisions. It is therefore extremely rare for AIG to have cause to enforce the provisions of a guarantee on a commercial real estate or mortgage loan.

The following table presents a rollforward of the changes in the allowance for losses on Mortgage and other loans receivable:

Three Months Ended March 31, *(in millions)*	**2012** Commercial Mortgages	**2012** Other Loans	**2012** Total	**2011** Commercial Mortgages	**2011** Other Loans	**2011** Total
Allowance, beginning of year	**$ 305**	**$ 435**	**$ 740**	$ 470	$ 408	$ 878
Loans charged off	**(6)**	**(28)**	**(34)**	(29)	(5)	(34)
Recoveries of loans previously charged off	**2**	**-**	**2**	33	-	33
Net charge-offs	**(4)**	**(28)**	**(32)**	4	(5)	(1)
Provision for loan losses	**(5)**	**6**	**1**	(21)	18	(3)
Other	**-**	**(1)**	**(1)**	(31)	-	(31)
Allowance, end of period	**$ 296***	**$ 412**	**$ 708**	$ 422*	$ 421	$ 843

* *Of the total, $60 million and $100 million relates to individually assessed credit losses on $442 million and $635 million of commercial mortgage loans as of March 31, 2012 and 2011, respectively.*

As of March 31, 2012, there were no significant loans held by AIG that had been modified in a troubled debt restructuring during 2012.

7. VARIABLE INTEREST ENTITIES

AIG enters into various arrangements with variable interest entities (VIEs) in the normal course of business. AIG's involvement with VIEs is primarily through its insurance companies as a passive investor in debt securities (rated and unrated) and equity interests issued by VIEs. When AIG holds both an economic interest and the power to direct the most significant activities of the VIE, AIG is deemed to be the primary beneficiary and consolidates the VIE.

EXPOSURE TO LOSS

AIG's total off-balance sheet exposure associated with VIEs, primarily consisting of financial guarantees and commitments to real estate and investment funds, was $0.3 billion and $0.4 billion at March 31, 2012 and December 31, 2011, respectively.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

(in billions)	VIE Assets[(a)] March 31, 2012	VIE Assets[(a)] December 31, 2011	VIE Liabilities March 31, 2012	VIE Liabilities December 31, 2011	Off-Balance Sheet Exposure March 31, 2012	Off-Balance Sheet Exposure December 31, 2011
AIA/ALICO SPVs[(b)]	**$ 1.8**	$ 14.2	**$ 0.1**	$ 0.1	**$ -**	$ -
Real estate and investment funds	**1.5**	1.5	**0.4**	0.4	**0.1**	0.1
Commercial paper conduit	**0.2**	0.5	**-**	0.2	**-**	-
Affordable housing partnerships	**2.5**	2.5	**0.2**	0.1	**-**	-
Other	**4.8**	4.1	**1.3**	1.8	**-**	-
Total	**$ 10.8**	$ 22.8	**$ 2.0**	$ 2.6	**$ 0.1**	$ 0.1

(a) *The assets of each VIE can be used only to settle specific obligations of that VIE.*

(b) *Decrease primarily due to the retirement of the AIA SPV Preferred Interests. See Note 1 herein for further discussion.*

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, and (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 variable interest, as well as AIG's maximum exposure to loss associated with these VIEs:

(in billions)	Total VIE Assets	Maximum Exposure to Loss On-Balance Sheet	Maximum Exposure to Loss Off-Balance Sheet	Total
March 31, 2012				
Real estate and investment funds	**$ 17.2**	**$ 2.0**	**$ 0.2**	**$ 2.2**
Affordable housing partnerships	**0.5**	**0.5**	**-**	**0.5**
Maiden Lane III interest	**20.0**	**6.9**	**-**	**6.9**
Other	**1.0**	**0.1**	**-**	**0.1**
Total	**$ 38.7**	**$ 9.5**	**$ 0.2**	**$ 9.7**
December 31, 2011				
Real estate and investment funds	$ 18.3	$ 2.1	$ 0.3	$ 2.4
Affordable housing partnerships	0.6	0.6	-	0.6
Maiden Lane II and III interests	27.1	7.0	-	7.0

Other	1.5	-	-	-
Total	$ 47.5	$ 9.7	$ 0.3	$ 10.0

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

BALANCE SHEET CLASSIFICATION

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

	Consolidated VIEs		Unconsolidated VIEs	
(in billions)	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
Assets:				
Available for sale securities	**$ 0.5**	$ 0.4	**$ -**	$ -
Trading securities	**1.0**	1.3	**7.0**	7.1
Mortgage and other loans receivable	**0.5**	0.5	**-**	-
Other invested assets*	**4.9**	17.2	**2.5**	2.6
Other asset accounts	**3.9**	3.4	**-**	-
Total	**$ 10.8**	$ 22.8	**$ 9.5**	$ 9.7
Liabilities:				
Other long-term debt	**$ 1.1**	$ 1.7	**$ -**	$ -
Other liability accounts	**0.9**	0.9	**-**	-
Total	**$ 2.0**	$ 2.6	**$ -**	$ -

* *Decrease primarily due to the retirement of the AIA SPV Preferred Interests. See Note 1 herein for further discussion.*

For information on RMBS, CMBS, and other ABS, see Notes 4 and 5 herein. For additional information on ABS and VIEs, see Notes 6, 7, and 11 to the Consolidated Financial Statements in AIG's 2011 Annual Report on Form 10-K.

8. 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. AIG Financial Products Corp. and AIG Trading Group, Inc. and their respective subsidiaries (AIGFP) had also transacted in derivatives as a dealer and had acted as an intermediary between the relevant AIG subsidiary and the counterparty. AIG has mostly replaced AIGFP with AIG Markets, Inc. (AIG Markets) for purposes of acting as an intermediary between the AIG subsidiary and the external counterparty.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

	March 31, 2012				December 31, 2011			
	Gross Derivative Assets		*Gross Derivative Liabilities*		*Gross Derivative Assets*		*Gross Derivative Liabilities*	
(in millions)	*Notional Amount*	*Fair Value*[(a)]	*Notional Amount*	*Fair Value*[(a)]	*Notional Amount*	*Fair Value*[(a)]	*Notional Amount*	*Fair Value*[(a)]
Derivatives designated as hedging instruments:								
Interest rate contracts[(b)]	**$ -**	**$ -**	**$ 438**	**$ 32**	$ -	$ -	$ 481	$ 38
Foreign exchange contracts	**-**	**-**	**30**	**-**	-	-	180	1
Derivatives not designated as hedging instruments:								
Interest rate contracts[(b)]	**71,305**	**7,527**	**76,753**	**6,512**	72,660	8,286	73,248	6,870
Foreign exchange contracts	**1,935**	**38**	**3,177**	**165**	3,278	145	3,399	178
Equity contracts[(c)]	**5,266**	**286**	**20,184**	**1,023**	4,748	263	18,911	1,126
Commodity contracts	**685**	**155**	**655**	**156**	691	136	861	146
Credit contracts	**436**	**65**	**23,778**	**2,771**	407	89	25,857	3,366
Other contracts[(d)]	**23,153**	**694**	**2,202**	**411**	24,305	741	2,125	372
Total derivatives not designated as hedging instruments	**102,780**	**8,765**	**126,749**	**11,038**	106,089	9,660	124,401	12,058
Total derivatives	**$ 102,780**	**$ 8,765**	**$ 127,217**	**$ 11,070**	$ 106,089	$ 9,660	$ 125,062	$ 12,097

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

(b) *Includes cross currency swaps.*

(c) *Notional amount of derivative liabilities and fair values of derivative liabilities include $19.3 billion and $0.8 billion, respectively, at March 31, 2012, and $18.3 billion and $0.9 billion, respectively, at December 31, 2011, related to bifurcated embedded derivatives. A bifurcated embedded derivative is generally presented with the host contract in the Consolidated Balance Sheet.*

(d) *Consist primarily of contracts with multiple underlying exposures.*

The following table presents the fair values of derivative assets and liabilities in the Consolidated Balance Sheet:

	March 31, 2012				December 31, 2011			
	Derivative Assets		Derivative Liabilities		Derivative Assets		Derivative Liabilities	
(in millions)	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value	Notional Amount	Fair Value
AIGFP derivatives	**$ 77,854**	**$ 5,666**	**$ 90,350**	**$ 7,095**	$ 86,128	$ 7,063	$ 90,241	$ 8,854

Non-AIGFP derivatives(a)	**24,926**	**3,099**	**36,867**	**3,975**	19,961	2,597	34,821	3,243
Total derivatives, gross	**$ 102,780**	**8,765**	**$ 127,217**	**11,070**	$ 106,089	9,660	$ 125,062	12,097
Counterparty netting(b)		**(3,264)**		**(3,264)**		(3,660)		(3,660)
Cash collateral(c)		**(1,280)**		**(2,801)**		(1,501)		(2,786)
Total derivatives, net		**4,221**		**5,005**		4,499		5,651
Less: Bifurcated embedded derivatives		**-**		**783**		-		918
Total derivatives on consolidated balance sheet		**$ 4,221**		**$ 4,222**		$ 4,499		$ 4,733

(a)
Represents derivatives used to hedge the foreign currency and interest rate risk associated with insurance and ILFC operations, as well as embedded derivatives included in insurance contracts. Liabilities include bifurcated embedded derivatives, which are recorded in Policyholder contract deposits.

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

(c)
Represents cash collateral posted and received.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

COLLATERAL

AIG engages in derivative transactions directly with unaffiliated third parties in most cases under International Swaps and Derivatives Association, Inc. (ISDA) agreements (ISDA Master Agreements). Many of the ISDA Master Agreements also include Credit Support Annex (CSA) provisions, which generally provide for collateral postings at various ratings and threshold levels.

Collateral posted by AIG to third parties for derivative transactions was $4.4 billion and $4.7 billion at March 31, 2012 and December 31, 2011, respectively. This collateral can generally be repledged or resold by the counterparties. Collateral obtained by AIG from third parties for derivative transactions was $1.4 billion and $1.6 billion at March 31, 2012 and December 31, 2011, respectively. This collateral can generally be repledged or resold by AIG.

HEDGE ACCOUNTING

AIG designated certain derivatives entered into by AIG Markets with third parties as cash flow hedges of certain debt issued by ILFC and designated certain derivatives entered into by AIG's insurance subsidiaries with third parties as fair value hedges of available-for-sale investment securities held by such subsidiaries. The fair value hedges include foreign currency forwards designated as hedges of the change in fair value of foreign currency denominated available-for-sale securities attributable to changes in foreign exchange rates. With respect to the cash flow hedges, 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.

AIG uses foreign currency denominated debt as hedging 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. For the three months ended March 31, 2012 and March 31, 2011, AIG recognized losses of $91 million and $24 million, respectively, included in Foreign currency translation adjustment in Accumulated other comprehensive income related to the net investment hedge relationships.

AIG does not utilize the shortcut method to assess hedge effectiveness. A qualitative methodology is utilized to assess hedge effectiveness for net investment hedges, while regression analysis is employed for all other hedges.

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

Three Months Ended March 31, ***(in millions)***	**2012**	**2011**
Interest rate contracts[(a)]:		
Loss recognized in earnings on derivatives	**$ (2)**	$ (7)
Gain recognized in earnings on hedged items[(b)]	**32**	48
Loss recognized in earnings for ineffective portion and amount excluded from effectiveness testing	**-**	(1)

(a) *Gains and losses recognized in earnings for the ineffective portion and amounts excluded from effectiveness testing are recorded in Net realized capital losses. Includes immaterial amounts related to foreign exchange contracts.*

(b) *Includes $30 million and $42 million for the three-month periods ended March 31, 2012 and 2011, respectively, representing the amortization of debt basis adjustment following the discontinuation of hedge accounting recorded in Other income and Net realized capital losses.*

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

Three Months Ended March 31, *(in millions)*		**2012**		**2011**
Interest rate contracts[a]:				
Gain (loss) recognized in OCI on derivatives	**$**	**(1)**	$	-
Loss reclassified from Accumulated OCI into earnings[b]		**(5)**		(18)

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

(b) *The effective portion of the change in fair value of a derivative qualifying as a cash flow hedge is recorded in Accumulated other comprehensive income until earnings are affected by the variability of cash flows in the hedged item. At March 31, 2012, $16 million of the deferred net loss in Accumulated other comprehensive income is expected to be recognized in earnings during the next 12 months.*

DERIVATIVES NOT DESIGNATED AS HEDGING INSTRUMENTS

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

Three Months Ended March 31, *(in millions)*	**Gains (Losses) Recognized in Earnings**			
		2012		**2011**
By Derivative Type:				
Interest rate contracts[a]	**$**	**(586)**	$	(274)
Foreign exchange contracts		**69**		20
Equity contracts[b]		**(188)**		(104)
Commodity contracts		**(1)**		5
Credit contracts		**151**		347
Other contracts		**29**		(18)
Total	**$**	**(526)**	$	(24)
By Classification:				
Premiums	**$**	**36**	$	25
Net investment income		**1**		2
Net realized capital gains (losses)		**(290)**		32
Other losses		**(273)**		(83)
Total	**$**	**(526)**	$	(24)

(a) *Includes cross currency swaps.*

(b) *Includes embedded derivative gains of $175 million and $107 million for the three months ended March 31, 2012 and 2011, respectively.*

AIGFP DERIVATIVES

AIGFP enters into derivative transactions to mitigate market 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 have been seeking to hedge certain aspects of such counterparties' operations or obtain a desired financial exposure.

AIGFP follows a policy of minimizing interest rate, currency, commodity, and equity risks associated with investment securities by entering into offsetting positions, thereby offsetting a significant portion of the unrealized

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

appreciation and depreciation. In addition, to reduce its credit risk, at March 31, 2012, AIGFP has entered into credit derivative transactions with respect to $134 million of securities to economically hedge its credit risk.

Super Senior Credit Default Swaps

Credit default swap transactions were entered into with the intention of earning revenue on credit exposure. In the majority of these transactions, credit protection was sold on a designated portfolio of loans or debt securities. Generally, such credit protection was provided on a "second loss" basis, meaning that credit losses would be incurred 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."

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

	Net Notional Amount		Fair Value of Derivative (Asset) Liability at		Unrealized Market Valuation Gain (Loss) Three Months Ended March 31,	
(in millions)	**March 31, 2012[(a)]**	**December 31, 2011[(a)]**	**March 31, 2012[(b)(c)]**	**December 31, 2011[(b)(c)]**	**2012[(c)]**	**2011[(c)]**
Regulatory Capital:						
Corporate loans	**$ 1,566**	$ 1,830	**$ -**	$ -	**$ -**	$ -
Prime residential mortgages	**2,526**	3,653	**-**	-	**-**	6
Other	**818**	887	**3**	9	**6**	9
Total	**4,910**	6,370	**3**	9	**6**	15
Arbitrage:						
Multi-sector CDOs[(d)]	**4,880**	5,476	**2,510**	3,077	**126**	273
Corporate debt/CLOs[(e)]	**11,962**	11,784	**110**	127	**17**	37
Total	**16,842**	17,260	**2,620**	3,204	**143**	310
Mezzanine tranches	**1,029**	989	**19**	10	**(9)**	(2)
Total	**$ 22,781**	$ 24,619	**$ 2,642**	$ 3,223	**$ 140**	$ 323

(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.*

(c) *Includes credit valuation adjustment losses of $26 million and $6 million in the three-month periods ended March 31, 2012 and 2011, respectively, representing the effect of changes in AIG's credit spreads on the valuation of the derivatives liabilities.*

(d) *During the three-month period ended March 31, 2012, a super senior CDS transaction with a net notional amount of $470 million was terminated at approximately its fair value at the time of termination. As a result, a $416 million loss, which was previously included in the fair value derivative*

liability as an unrealized market valuation loss, was realized. During the three-month period ended March 31, 2012, $25 million was paid to counterparties with respect to multi-sector CDOs. Upon payment, a $25 million loss, which was previously included in the fair value of the derivative liability as an unrealized market valuation loss, was realized. Multi-sector CDOs also include $4.1 billion and $4.6 billion in net notional amount of credit default swaps written with cash settlement provisions at March 31, 2012 and December 31, 2011, respectively.

(e) *Corporate debt/CLOs include $1.3 billion and $1.2 billion in net notional amount of credit default swaps written on the super senior tranches of CLOs at March 31, 2012 and December 31, 2011, respectively.*

The expected weighted average maturity of the super senior credit derivative portfolios as of March 31, 2012 was 0.5 years for the regulatory capital corporate loan portfolio, 0.7 years for the regulatory capital prime residential mortgage portfolio, 3.5 years for the regulatory capital other portfolio, 6.4 years for the multi-sector CDO arbitrage portfolio and 3.9 years for the corporate debt/CLO portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Given the current performance of the underlying portfolios, the level of subordination of the credit protection written and the assessment of the credit quality of the underlying portfolio, as well as the risk mitigants inherent in the transaction structures, AIG does not expect that it will be required to make payments pursuant to the contractual terms of those transactions providing regulatory relief.

Because of 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.

Written Single Name Credit Default Swaps

Credit default swap contracts referencing single-name exposures written on corporate, index and asset-backed credits have also been entered into with the intention of earning spread income on credit exposure. Some of these transactions were entered into as part of a long-short strategy to earn the net spread between CDS written and purchased. At March 31, 2012, the net notional amount of these written CDS contracts was $382 million, including ABS CDS transactions purchased from a liquidated multi-sector super senior CDS transaction. These exposures have been hedged by purchasing offsetting CDS contracts of $69 million in net notional amount. The net unhedged position of $313 million represents the maximum exposure to loss on these CDS contracts. The average maturity of the written CDS contracts is 18.8 years. At March 31, 2012, the fair value of derivative liability (which represents the carrying value) of the portfolio of CDS was $85 million.

Upon a triggering event (e.g., a default) with respect to the underlying credit, the option would normally exist to either 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 obligor (physical settlement).

These CDS contracts were written under ISDA Master Agreements. The majority of these ISDA Master Agreements include CSAs that provide for collateral postings at various ratings and threshold levels. At March 31, 2012, collateral posted by AIG under these contracts was $78 million (prior to offsets for other transactions).

NON-AIGFP DERIVATIVES

AIG's businesses other than AIGFP also use derivatives and other instruments as part of their financial risk management. Interest rate derivatives (such as interest rate swaps) are used to manage interest rate risk associated with embedded derivatives contained in insurance contract liabilities, fixed maturity securities, outstanding medium- and long-term notes as well as other interest rate sensitive assets and liabilities. Foreign exchange derivatives (principally foreign exchange forwards and options) are used to economically mitigate risk associated with non-U.S. dollar denominated debt, net capital exposures, and foreign currency transactions. Equity derivatives are used to mitigate financial risk embedded in certain insurance liabilities. The derivatives are effective economic hedges of the exposures that they are meant to offset.

In addition to hedging activities, AIG also enters into 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.

Matched Investment Program (MIP) Written Credit Default Swaps

Through the MIP, AIG has entered into CDS contracts as a writer of protection, with the intention of earning spread income on credit exposure in an unfunded form. These contracts were written through AIG Markets, which then transacted directly with unaffiliated third parties under ISDA Master Agreements. As of March 31, 2012, the notional amount of written CDS contracts was $896 million with an average credit rating of BBB+, a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

remaining maturity of less than one year and the fair value of the derivative liability (which represents the carrying value) of $6 million.

CREDIT RISK-RELATED CONTINGENT FEATURES

The aggregate fair value of AIG's derivative instruments, including those of AIGFP, that contain credit risk-related contingent features that were in a net liability position at March 31, 2012, was approximately $4.4 billion. The aggregate fair value of assets posted as collateral under these contracts at March 31, 2012, was $4.6 billion.

AIG estimates that at March 31, 2012, 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 BBB+ by Standard & Poor's Financial Services LLC, a subsidiary 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 a negligible amount of corresponding collateral postings and termination payments; a one-notch downgrade to Baa2 by Moody's Investors' Services, Inc. (Moody's) and an additional one-notch downgrade to BBB by S&P would result in approximately $137 million in additional collateral postings and termination payments and a further one-notch downgrade to Baa3 by Moody's and BBB- by S&P would result in approximately $274 million in additional collateral postings and termination payments. Additional collateral postings upon downgrade are estimated based on the factors in the individual collateral posting provisions of the CSA with each counterparty and current exposure as of March 31, 2012. Factors considered in estimating the termination payments upon downgrade include current market conditions, the complexity of the derivative transactions, historical termination experience and other observable market events such as bankruptcy and downgrade events that have occurred at other companies. Management's estimates are also based on the assumption that counterparties will terminate based on their net exposure to AIG. The actual termination payments could significantly differ from management's estimates given market conditions at the time of downgrade and 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.

HYBRID SECURITIES WITH EMBEDDED CREDIT DERIVATIVES

AIG invests in hybrid securities (such as credit-linked notes). AIG invested in these hybrid securities with the intent of generating income, and not specifically to acquire exposure to embedded derivative risk. Similar to AIG's other investments in RMBS, CMBS, CDOs and ABS, AIG's investments in these hybrid securities are exposed to losses only up to the amount of AIG's initial investment in the hybrid security. Other than AIG's initial investment in the hybrid securities, AIG has no further obligation to make payments on the embedded credit derivatives in the related hybrid securities.

AIG elects to account for its investments in these hybrid securities with embedded written credit derivatives at fair value, with changes in fair value recognized in Net investment income and Other income. AIG's investments in these hybrid securities are reported as Bond trading securities in the Consolidated Balance Sheet. The fair value of these hybrid securities was $135 million at March 31, 2012. These securities have a current par amount of $430 million and have remaining stated maturity dates that extend to 2052.

9. COMMITMENTS, CONTINGENCIES AND GUARANTEES

In the normal course of business, various commitments and contingent liabilities are entered into by AIG and certain of its subsidiaries. In addition, AIG guarantees various obligations of certain subsidiaries.

Although AIG cannot currently quantify its ultimate liability for unresolved litigation and investigation matters, including those referred to below, it is possible that such liability could have a material adverse effect on AIG's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

consolidated financial condition or its consolidated results of operations or consolidated cash flows for an individual reporting period.

(A) LITIGATION AND INVESTIGATIONS

Overview. 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 (including UGC), 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. AIG is also subject to derivative, class action and other claims asserted by its shareholders and others alleging, among other things, breach of fiduciary duties by its directors and officers and violations of insurance laws and regulations, as well as federal and state securities laws. In the case of any derivative action brought on behalf of AIG, any recovery would accrue to the benefit of AIG.

Various regulatory and governmental agencies have been reviewing certain public disclosures, transactions and practices of AIG and its subsidiaries in connection with industry-wide and other inquiries into, among other matters, AIG's liquidity, compensation paid to certain employees, payments made to counterparties, and certain business practices and valuations of current and former operating insurance subsidiaries. AIG has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests.

AIG's life insurance companies have received industry-wide regulatory inquiries, including a multi-state audit and market conduct examination covering compliance with unclaimed property laws and a directive from the New York Insurance Department (the New York Directive) regarding claims settlement practices and other related state regulatory inquiries. In particular, the above referenced multi-state audit and market conduct examination seeks to require insurers to use the Social Security Death Master File (SSDMF) to identify potential deceased insureds, notwithstanding that the beneficiary or other payee has not presented the company with a valid claim, to determine whether a claim is payable and to take appropriate action. The multi-state audit and market conduct examination covers certain policies in force at any time since 1992. The New York Directive generally requires a similar review and action although the time frame under review is different.

AIG recorded an increase of $202 million in the estimated reserves for incurred but not reported death claims in 2011 in conjunction with the use of the SSDMF to identify potential claims not yet presented. Although AIG has enhanced its claims practices to include use of the SSDMF, it is possible that the inquiries, audits and other regulatory activity could result in the payment of additional death claims, additional escheatment of funds deemed abandoned under state laws, administrative penalties and interest. AIG believes it is adequately reserved for such claims, but there can be no assurance that the ultimate cost will not vary, perhaps materially, from its estimate. Additionally, state regulators are considering a variety of proposals that would require life insurance companies to take additional steps to identify unreported deceased policy holders.

The National Association of Insurance Commissioners Market Analysis Working Group, led by the states of Ohio and Iowa, is conducting a multi-state examination of certain accident and health products, including travel products, issued by National Union Fire Insurance Company of Pittsburgh, Pa. (National Union). The examination formally commenced in September 2010 after National Union, based on the identification of certain regulatory issues related to the conduct of its accident and health insurance business, including rate and form issues, producer licensing and appointment, and vendor management, requested that state regulators collectively conduct an examination of the regulatory issues in its accident and health business. In addition to Ohio and Iowa, the lead states in the multi-state examination are Minnesota, New Jersey and Pennsylvania, and currently a total of 38 states have agreed to participate in the multi-state examination. As part of the multi-state examination, the following Interim Consent Orders were entered into with Ohio: (a) on January 7, 2011, in which National Union

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

agreed, on a nationwide basis, to cease marketing directly to individual bank customers accident/sickness policy forms that had been approved to be sold only as policies providing blanket coverage, and to certain related remediation and audit procedures and (b) on February 14, 2012, in which National Union agreed, on a nationwide basis, to limit outbound telemarketing to certain forms and rates. A Consent Order was entered into with Minnesota on February 10, 2012, in which National Union and Travel Guard Group Inc., an AIG subsidiary, agreed to (i) cease automatically enrolling Minnesota residents in certain insurance relating to air travel, (ii) pay a civil penalty to Minnesota of $250,000 and (iii) refund premium to Minnesota residents who were automatically enrolled in certain insurance relating to air travel. In early 2012, Chartis, Inc., on behalf of itself, National Union, and certain of Chartis, Inc.'s insurance companies (collectively, the Chartis parties) and the lead regulators agreed in principle upon certain terms to resolve the multi-state examination. The terms include (i) payment of a civil penalty of up to $51 million, (ii) agreement to enter into a corrective action plan describing agreed-upon specific steps and standards for evaluating the Chartis parties, ongoing compliance with laws and regulations governing the regulatory issues identified in the examination, and (iii) agreement to pay a contingent fine in the event that the Chartis parties fail to substantially comply with the steps and standards agreed to in the corrective action plan. As of March 31, 2012, AIG has an accrued liability equal to the amount of the civil penalty under the proposed agreement. As the terms outlined above are subject to agreement by the lead and participating states and appropriate agreements or orders, AIG (i) can give no assurance that these terms will not change prior to a final resolution of the multi-state examination that is binding on all parties and (ii) cannot predict what other regulatory action, if any, will result from resolving the multi-state examination. There can be no assurance that any regulatory action resulting from the issues identified will not have a material adverse effect on AIG's consolidated results of operations for an individual reporting period, the ongoing operations of the business being examined, or on similar business written by other AIG carriers. National Union and other AIG companies are also currently subject to civil litigation relating to the conduct of their accident and health business, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course.

Industry-wide examinations conducted by the Minnesota Department of Insurance and the Department of Housing and Urban Development (HUD) on captive reinsurance practices by lenders and mortgage insurance companies, including UGC, have been ongoing for several years. Recently, the newly formed Consumer Financial Protection Bureau assumed responsibility for violations of the Real Estate Settlement Procedures Act from HUD, and assumed HUD's aforementioned ongoing investigation. UGC recently received a proposed consent order from the Minnesota Commissioner of Commerce (the MN Commissioner) which alleges that UGC violated the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act and other state and federal laws in connection with its practices with captive reinsurance companies owned by lenders. UGC is currently engaged in discussions with the MN Commissioner with respect to the terms of the proposed consent order. UGC cannot predict if or when a consent order may be entered into or, if entered into, what the terms of the final consent order will be. UGC is also currently subject to civil litigation relating to its placement of reinsurance with captives owned by lenders, and may be subject to additional litigation relating to the conduct of such business from time to time in the ordinary course.

AIG's Subprime Exposure, AIGFP Credit Default Swap Portfolio and Related Matters

AIG, AIGFP and certain directors and officers of AIG, AIGFP and other AIG subsidiaries have been named in various actions relating to AIG's exposure to the U.S. residential subprime mortgage market, unrealized market valuation losses on AIGFP's super senior credit default swap portfolio, losses and liquidity constraints relating to AIG's securities lending program and related disclosure and other matters (Subprime Exposure Issues).

Consolidated 2008 Securities Litigation. Between May 21, 2008 and January 15, 2009, eight purported securities class action complaints were filed against AIG and certain directors and officers of AIG and AIGFP, AIG's outside auditors, and the underwriters of various securities offerings in the United States District Court for the Southern District of New York (the Southern District of New York), alleging claims under the Securities Exchange

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Act of 1934 (the Exchange Act) or claims under the Securities Act of 1933 (the Securities Act). On March 20, 2009, the Court consolidated all eight of the purported securities class actions as In re American International Group, Inc. 2008 Securities Litigation (the Consolidated 2008 Securities Litigation). Subsequently, on November 18, 2011 and January 20, 2012, two separate, though similar, securities actions were brought against AIG and certain directors and officers of AIG and AIGFP by the Kuwait Investment Office and various Oppenheimer Funds, respectively.

On May 19, 2009, lead plaintiff in the Consolidated 2008 Securities Litigation filed a consolidated complaint on behalf of purchasers of AIG Common Stock during the alleged class period of March 16, 2006 through September 16, 2008, and on behalf of purchasers of various AIG securities offered pursuant to AIG's shelf registration statements. The consolidated complaint alleges that defendants made statements during the class period in press releases, AIG's quarterly and year-end filings, during conference calls, and in various registration statements and prospectuses in connection with the various offerings that were materially false and misleading and that artificially inflated the price of AIG Common Stock. The alleged false and misleading statements relate to, among other things, the Subprime Exposure Issues. The consolidated complaint alleges violations of Sections 10(b) and 20(a) of the Exchange Act and Sections 11, 12(a)(2), and 15 of the Securities Act. On August 5, 2009, defendants filed motions to dismiss the consolidated complaint, and on September 27, 2010, the Court denied the motions to dismiss.

On November 24, 2010 and December 10, 2010, AIG and all other defendants filed answers to the consolidated complaint denying the material allegations therein and asserting their defenses.

On April 1, 2011, the lead plaintiff in the Consolidated 2008 Securities Litigation filed a motion to certify a class of plaintiffs. On November 2, 2011, the Court terminated the motion without prejudice to an application for restoration. On March 30, 2012, the lead plaintiff filed a renewed motion to certify a class of plaintiffs.

As of May 3, 2012, plaintiffs in the Consolidated 2008 Securities Litigation have not specified an amount of alleged damages, discovery is ongoing and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

As of May 3, 2012, the actions initiated by the Kuwait Investment Office and various Oppenheimer Funds are in their early stages, no discussions concerning potential damages have occurred and the plaintiffs have not specified an amount of alleged damages in their respective actions. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from these litigations.

ERISA Actions Southern District of New York. Between June 25, 2008, and November 25, 2008, AIG, certain directors and officers of AIG, and members of AIG's Retirement Board and Investment Committee were named as defendants in eight purported class action complaints asserting claims on behalf of participants in certain pension plans sponsored by AIG or its subsidiaries. On March 19, 2009, the Court consolidated these eight actions as In re American International Group, Inc. ERISA Litigation II. On June 26, 2009, lead plaintiffs' counsel filed a consolidated amended complaint. The action purports to be brought as a class action under the Employee Retirement Income Security Act of 1974, as amended (ERISA), on behalf of all participants in or beneficiaries of certain benefit plans of AIG and its subsidiaries that offered shares of AIG Common Stock. In the consolidated amended complaint, plaintiffs allege, among other things, that the defendants breached their fiduciary responsibilities to plan participants and their beneficiaries under ERISA, by continuing to offer the AIG Stock Fund as an investment option in the plans after it allegedly became imprudent to do so. The alleged ERISA violations relate to, among other things, the defendants' purported failure to monitor and/or disclose certain matters, including the Subprime Exposure Issues. On September 18, 2009, defendants filed motions to dismiss the consolidated amended complaint.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

On March 31, 2011, the Court granted defendants' motions to dismiss with respect to one plan at issue, and denied defendants' motions to dismiss with respect to the other two plans at issue.

On August 5, 2011, AIG and all other defendants filed answers to the consolidated complaint denying the material allegations therein and asserting their defenses.

On March 19, 2012, AIG and all other defendants filed a motion for judgment on the pleadings.

As of May 3, 2012, plaintiffs have not specified an amount of alleged damages, discovery is ongoing, and the Court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Consolidated 2007 Derivative Litigation. On November 20, 2007 and August 6, 2008, purported shareholder derivative actions were filed in the Southern District of New York naming as defendants directors and officers of AIG and its subsidiaries and asserting claims on behalf of nominal defendant AIG. The actions have been consolidated as In re American International Group, Inc. 2007 Derivative Litigation (the Consolidated 2007 Derivative Litigation). On June 3, 2009, lead plaintiff filed a consolidated amended complaint naming additional directors and officers of AIG and its subsidiaries as defendants. As amended, the factual allegations include the Subprime Exposure Issues and AIG and AIGFP employee retention payments and related compensation issues. The claims asserted on behalf of nominal defendant AIG include breach of fiduciary duty, waste of corporate assets, unjust enrichment, contribution and violations of Sections 10(b) and 20(a) of the Exchange Act. On August 5 and 26, 2009, AIG and defendants filed motions to dismiss the consolidated amended complaint. On December 18, 2009, a separate action, previously commenced in the United States District Court for the Central District of California (Central District of California) and transferred to the Southern District of New York on June 5, 2009, was consolidated into the Consolidated 2007 Derivative Litigation and dismissed without prejudice to the pursuit of the claims in the Consolidated 2007 Derivative Litigation.

On March 30, 2010, the Court dismissed the action due to plaintiff's failure to make a pre-suit demand on AIG's Board of Directors. On March 17, 2011, the United States Court of Appeals for the Second Circuit (the Second Circuit) affirmed the Southern District of New York's dismissal of the Consolidated 2007 Derivative Litigation due to plaintiff's failure to make a pre-suit demand.

On August 10, 2011 and August 15, 2011, the plaintiff that brought the Consolidated 2007 Derivative Litigation sent letters to AIG's Board of Directors (the Board) demanding that the Board cause AIG to pursue the claims asserted in the Consolidated 2007 Derivative Litigation. On September 13, 2011, the Board rejected the demand.

Other Derivative Actions. Separate purported derivative actions, alleging similar claims as the Consolidated 2007 Derivative Litigation, have been brought asserting claims on behalf of the nominal defendant AIG in various jurisdictions. These actions are described below:

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 certain directors and officers of AIG and its subsidiaries. On March 9, 2009, this action was stayed. On April 4, 2012, the Court entered a stipulation of dismissal without prejudice.

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 directors and officers of AIG and recipients of AIGFP retention payments. The complaint has not been served on any defendant.

Delaware Court of Chancery. On September 17, 2008, a purported shareholder derivative complaint was filed in the Delaware Court of Chancery, naming as defendants certain directors and officers of AIG and its subsidiaries. On July 17, 2009, the case was stayed. On May 4, 2011, the parties filed a stipulation with the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Court agreeing to lift the stay, and granting plaintiff leave to file an amended complaint. On June 17, 2011, AIG filed a motion to dismiss the second amended complaint due to plaintiff's failure to make a pre-suit demand on the Board. On February 1, 2012, the Court approved a stipulation between the parties, dismissing the second amended complaint with prejudice.

Superior Court for the State of California, Los Angeles County. On November 20, 2009, a purported shareholder derivative complaint was filed in the Superior Court for the State of California, Los Angeles County, naming as defendants certain directors and officers of AIG and its subsidiaries. On February 9, 2010, the case was stayed.

Canadian Securities Class Action Ontario Superior Court of Justice. On November 12, 2008, an application was filed in the Ontario Superior Court of Justice for leave to bring a purported class action against AIG, AIGFP, certain directors and officers of AIG and Joseph Cassano, the former Chief Executive Officer of AIGFP, pursuant to the Ontario Securities Act. If the Court grants the application, a class plaintiff will be permitted to file a statement of claim against defendants. The proposed statement of claim would assert a class period of November 10, 2006 through September 16, 2008 (later amended to March 16, 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 April 17, 2009, defendants filed a motion record in support of their motion to stay or dismiss for lack of jurisdiction and forum non conveniens. On July 12, 2010, the Court adjourned a hearing on the motion pending a decision by the Supreme Court of Canada in a pair of actions captioned Club Resorts Ltd. v. Van Breda 2012 SCC 17 (Van Breda). On April 18, 2012, the Supreme Court of Canada issued a decision in those actions, clarifying the standard for determining jurisdiction over foreign and out-of-province defendants, such as AIG.

The Supreme Court of Canada found, among other things, that in order to be "doing business" in a province for purposes of establishing jurisdiction, a defendant must have some form of "actual," as opposed to a merely "virtual," presence in the jurisdiction. The Supreme Court of Canada also suggested that in future cases, defendants may contest jurisdiction even when they are found to be doing business in a Canadian jurisdiction if their business activities in the jurisdiction are unrelated to the subject matter of the litigation.

The hearing on defendants' motion has been scheduled and will address, *inter alia*, whether, under the ruling in Van Breda, AIG and AIGFP were "doing business" in Ontario for purposes of jurisdiction.

In plaintiff's proposed statement of claim, plaintiff alleged general and special damages of $500 million, and punitive damages of $50 million plus prejudgment interest or such other sums as the Court finds appropriate. As of May 3, 2012, the Court has not determined whether it has jurisdiction or granted plaintiff's application to file a statement of claim and no merits discovery has occurred. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

Starr International Litigation On November 21, 2011, Starr International Company, Inc. (SICO) filed a complaint against the Department of the Treasury in the United States Court of Federal Claims, bringing claims, both individually and on behalf of all others similarly situated and derivatively on behalf of AIG (the Starr Treasury Action). The complaint challenges the government's assistance of AIG, pursuant to which AIG entered into the FRBNY Credit Facility and the Department of the Treasury received an approximately 80 percent ownership in AIG. The complaint alleges that the interest rate imposed on AIG and the appropriation of approximately 80 percent of AIG's equity was discriminatory, unprecedented, and inconsistent with liquidity assistance offered by the government to other comparable firms at the time and violated the Equal Protection, Due Process, and Takings Clauses of the U.S. Constitution.

On the same day that SICO commenced the Starr Treasury Action, SICO also filed a second complaint in the United States District Court in the Southern District of New York, this one against the FRBNY bringing claims,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

both individually and on behalf of all others similarly situated and derivatively on behalf of AIG. This complaint also challenges the government's assistance of AIG, pursuant to which AIG entered into the FRBNY Credit Facility and the Department of the Treasury received an approximately 80 percent ownership in AIG. The complaint alleges that the FRBNY owed fiduciary duties to AIG as a controlling shareholder of AIG, and that the FRBNY breached these fiduciary duties by "divert[ing] the rights and assets of AIG and its shareholders to itself and favored third parties" through transactions involving ML III, an entity controlled by the FRBNY, and by "participating in, and causing AIG's officers and directors to participate in, the evasion of AIG's existing Common Stock shareholders' right to approve the massive issuance of the new Common Shares required to complete the government's taking of a nearly 80 percent interest in the Common Stock of AIG." SICO also alleges that the "FRBNY has asserted that in exercising its control over, and acting on behalf of, AIG it did not act in an official, governmental capacity or at the direction of the Department of the Treasury," but that "[t]o the extent the proof at or prior to trial shows that the FRBNY did in fact act in a governmental capacity, or at the direction of the Department of the Treasury, the improper conduct . . . constitutes the discriminatory takings of the property and property rights of AIG without due process or just compensation."

In both of the actions commenced by SICO, the only claims naming AIG as a party are derivative claims on behalf of AIG, and AIG thus faces no potential damages. The FRBNY has requested indemnification under the FRBNY Credit Facility from AIG in connection with the action against it and AIG is discussing the request and its scope with the FRBNY. On January 31, 2012 and February 1, 2012, amended complaints were filed in the Court of Federal Claims and the Southern District of New York, respectively. These amended complaints contain additional factual allegations, but do not contain any new claims against the Department of the Treasury, the FRBNY or AIG.

On January 31, 2012, the Court of Federal Claims added AIG as a party to the Starr Treasury Action as a nominal defendant and held that "AIG may participate in this case to any extent it deems appropriate." On February 23, 2012, SICO and AIG filed a joint motion and stipulation, which the Department of the Treasury opposed, requesting that AIG's time to respond to the amended complaint be extended until 20 days after the Department of the Treasury answered the amended complaint. On March 1, 2012, the Department of the Treasury filed a motion to dismiss the amended complaint. On March 13, 2012, the Court of Federal Claims issued an order stating that AIG need not respond to SICO's amended complaint until 20 days after the Department of the Treasury files its answer to the amended complaint.

On March 9, 2012, the Southern District of New York endorsed a stipulation and order between AIG and SICO (but opposed by the FRBNY) that AIG need not respond to SICO's amended complaint until 20 days after the FRBNY files its answer to the amended complaint. FRBNY filed its motion to dismiss the amended complaint on April 2, 2012.

Other Litigation Related to AIGFP

On September 30, 2009, Brookfield Asset Management, Inc. and Brysons International, Ltd. (together, Brookfield) filed a complaint against AIG and AIGFP in the Southern District of New York. Brookfield seeks a declaration that a 1990 interest rate swap agreement between Brookfield and AIGFP (guaranteed by AIG) terminated upon the occurrence of certain alleged events that Brookfield contends constituted defaults under the swap agreement's standard "bankruptcy" default provision. Brookfield claims that it is excused from all future payment obligations under the swap agreement on the basis of the purported termination. At March 31, 2012, the estimated present value of expected future cash flows discounted at LIBOR was $1.5 billion, which represents AIG's maximum contractual loss from the alleged termination of the contract. It is AIG's position that no termination event has occurred and that the swap agreement remains in effect. A determination that a termination event has occurred could result in AIG losing its entitlement to all future payments under the swap agreement and result in a loss to AIG of the full value at which AIG is carrying the swap agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Additionally, a determination that AIG triggered a "bankruptcy" event of default under the swap agreement could also, depending on the Court's precise holding, affect other AIG or AIGFP agreements that contain the same or similar default provisions. Such a determination could also affect derivative agreements or other contracts between third parties, such as credit default swaps under which AIG is a reference credit, which could affect the trading price of AIG securities. During the third quarter of 2011, beneficiaries of certain previously repaid AIGFP guaranteed investment agreements brought an action against AIG Parent and AIGFP making "bankruptcy" event of default allegations similar to those made by Brookfield. AIG has moved to dismiss the beneficiaries' supplemental amended complaint.

On December 17, 2009, AIG and AIGFP filed a motion to dismiss Brookfield's complaint. On September 28, 2010, the Court issued a decision granting defendants' motion in part and denying it in part, holding that the complaint: (i) failed to allege that an event of default had occurred based upon defendants' failure to pay or inability to pay debts as they became due; but, (ii) sufficiently alleged that an event of default had occurred based upon other sections of the swap agreement's "bankruptcy" default provision. On January 26, 2011, Brookfield filed an amended complaint that sought to reassert, on the basis of additional factual allegations, the claims that were dismissed from the initial complaint. While AIG initially moved to dismiss the claim that Brookfield sought to reassert in its amended complaint, after Brookfield filed a second amended complaint on September 15, 2011, AIG informed the Court that, in light of the advanced stage of fact discovery in the case, it intends to defer seeking to dismiss Brookfield's claims until motions for summary judgment have been filed, when the discovery record can be considered. AIG and AIGFP filed an answer to the second amended complaint on November 8, 2011. Fact discovery is currently scheduled to conclude on May 15, 2012.

Securities Lending Dispute with Transatlantic Holdings Inc.

On May 24, 2010, Transatlantic Holdings, Inc. (Transatlantic) and two of its subsidiaries, Transatlantic Reinsurance Company and Trans Re Zurich Reinsurance Company Ltd. (collectively, Claimants), commenced an arbitration proceeding before the American Arbitration Association in New York against AIG and two of its subsidiaries (the AIG Respondents). Claimants allege breach of contract, breach of fiduciary duty, and common law fraud in connection with certain securities lending agency agreements between AIG's subsidiaries and Claimants. Claimants allege that AIG and its subsidiaries should be liable for the losses that Claimants purport to have suffered in connection with securities lending and investment activities, and seek damages of $350 million and other unspecified damages.

On June 29, 2010, AIG brought a petition in the Supreme Court of the State of New York, seeking to enjoin the arbitration on the ground that AIG is not a party to the securities lending agency agreements with Claimants. On July 29, 2010, the parties agreed to resolve that petition by consolidating the arbitration commenced by Claimants with a separate arbitration, commenced by AIG on June 29, 2010, in which AIG is seeking damages of Euro 17.6 million ($23.5 million at the March 31, 2012 exchange rate) from Transatlantic for breach of a Master Separation Agreement among Transatlantic, AIG and one of its subsidiary companies.

On September 13, 2010, the AIG Respondents submitted an answer to Claimants' claims asserting, among other things, that there was no breach of the securities lending agency agreements, and that Claimants' other allegations including purported breach of fiduciary duty and fraud are not meritorious. Transatlantic submitted an answer denying liability with respect to AIG's claim on September 13, 2010. Claimants increased its claimed damages to an amount of approximately $500 million.

On January 26, 2012, AIG Respondents and Claimants reached a binding agreement to terminate the arbitration proceedings and to dismiss all claims between the parties without any admission of liability by any of the parties. Pursuant to the agreement, the parties will first seek to reach an overall mediated settlement of the claims in the arbitration proceeding along with various other business matters that were not at issue in the arbitration. If a mediated resolution including all claims and outstanding business issues cannot be reached, then

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

the parties will try to reach a mediated resolution of the securities lending claims only, including a settlement payment to Transatlantic between $45 million and $125 million. If the parties cannot reach such resolution, the parties have agreed that, following a 3-day hearing set to start on July 9, 2012, the mediator will determine the amount of a settlement payment to Transatlantic with respect to the securities lending claims in a range between $45 million and $125 million. Accordingly, AIG has accrued an amount it believes is reasonable for this settlement.

Employment Litigation against AIG and AIG Global Real Estate Investment Corporation

Fitzpatrick matter. On December 9, 2009, AIG Global Real Estate Investment Corporation's (AIGGRE) former President, Kevin P. Fitzpatrick, several entities he controls, and various other single purpose entities (the SPEs) filed a complaint in the Supreme Court of the State of New York, New York County against AIG and AIGGRE (the Defendants). The case was removed to the Southern District of New York, and an amended complaint was filed on March 8, 2010. The amended complaint asserts that the Defendants violated fiduciary duties to Fitzpatrick and his controlled entities and breached Fitzpatrick's employment agreement and agreements of SPEs that purportedly entitled him to carried interest fees arising out of the sale or disposition of certain real estate. Fitzpatrick has also brought derivative claims on behalf of the SPEs, purporting to allege that the Defendants breached contractual and fiduciary duties in failing to fund the SPEs with various amounts allegedly due under the SPE agreements. Fitzpatrick has also requested injunctive relief, an accounting, and that a receiver be appointed to manage the affairs of the SPEs. He has further alleged that the SPEs are subject to a constructive trust. Fitzpatrick also has alleged a violation of ERISA relating to retirement benefits purportedly due. Fitzpatrick has claimed that he is currently owed damages totaling approximately $196 million, and that potential future amounts owed to him are approximately $78 million, for a total of approximately $274 million. Fitzpatrick further claims unspecified amounts of carried interest on certain additional real estate assets of AIG and its affiliates. He also seeks punitive damages for the alleged breaches of fiduciary duties. Defendants assert that Fitzpatrick has been paid all amounts currently due and owing pursuant to the various agreements through which he seeks recovery. As set forth above, the possible range of loss to AIG is $0 to $274 million, although Fitzpatrick claims that he is also entitled to additional unspecified amounts of carried interest and punitive damages.

Defendants filed counterclaims against Fitzpatrick and a motion to dismiss. On September 28, 2010, the Court dismissed the Defendants' counterclaims, and denied Defendants' motion to dismiss. On March 14, 2011, both plaintiffs and defendants filed motions for partial summary judgment. Those motions are still pending, and no trial date has been set.

Behm matter. Frank Behm, former President of AIG Global Real Estate Asia Pacific, Inc. (AIGGREAP), has filed two actions in connection with the termination of his employment. Behm filed an action on or about October 1, 2010 in Delaware Superior Court in which he asserts claims of breach of implied covenant of good faith and fair dealing for termination in violation of public policy, deprivation of compensation, and breach of contract. Additionally, on or about March 29, 2011, Behm filed an arbitration proceeding before the American Arbitration Association alleging wrongful termination, in which he seeks the payment of carried interest or "promote" distributed through the SPEs, based on the sales of certain real estate assets. Behm also contends that he is entitled to promote as a third-party beneficiary of Kevin Fitzpatrick's employment agreement, which, Behm claims, defines broadly a class of individuals, allegedly including himself, who, with the approval of AIG's former Chief Investment Officer, became eligible to receive promote payments. Behm is now claiming approximately $67 million in carried interest. Multiple AIG entities (the AIG Entities) are named as parties in each of the Behm matters. The AIG Entities have filed a counterclaim in the Delaware case, contending that Behm owes them approximately $3.6 million (before pre-judgment interest) in tax equalization payments made by the AIG Entities on Behm's behalf.

Both matters filed by Behm are premised on the same key allegations. Behm claims that the AIG Entities wrongfully terminated him from AIGGREAP in an effort to silence him for voicing opposition to allegedly

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

improper practices concerning the amount of AIG reserves for carried interest that Behm contends is due to him and others. The AIG Entities contend that their reserves are appropriate, as Behm's claims for additional carried interest are without merit. Behm claims that, when he refused to accede to the AIG Entities' position as to the amount of carried interest due, he was targeted for investigation and subsequently terminated, purportedly for providing confidential AIG information to a competitor, and its executive search firm. Behm argues that he did not disclose any confidential information; instead, he met with several of the competitor's representatives in order to foster interest in purchasing AIGGREAP.

The parties have finalized the selection of the arbitration panel and the arbitration began on May 1, 2012. No trial date has been set in the Delaware action. As set forth above, the possible range of loss to AIG is $0 to $67 million, although Behm claims that he is also entitled to additional unspecified amounts of carried interest and punitive damages.

False Claims Act Complaint

On February 25, 2010, a complaint was filed in the United States District Court for the Southern District of California by two individuals (Relators) seeking to assert claims on behalf of the United States against AIG and certain other defendants, including Goldman Sachs and Deutsche Bank, under the False Claims Act. Relators filed a First Amended Complaint on September 30, 2010, adding certain additional defendants, including Bank of America and Société Générale. The amended complaint alleges that defendants engaged in fraudulent business practices in respect of their activities in the over-the-counter market for collateralized debt obligations, and submitted false claims to the United States in connection with the FRBNY Credit Facility and the ML II and ML III entities (the Maiden Lane Interests) through, among other things, misrepresenting AIG's ability and intent to repay amounts drawn on the FRBNY Credit Facility, and misrepresenting the value of the securities that the Maiden Lane Interests acquired from AIG and certain of its counterparties. The complaint seeks unspecified damages pursuant to the False Claims Act in the amount of three times the damages allegedly sustained by the United States as well as interest, attorneys' fees, costs and expenses. The complaint and amended complaints were initially filed and maintained under seal while the United States considered whether to intervene in the action. On or about April 28, 2011, after the United States declined to intervene, the District Court lifted the seal, and Relators served the amended complaint on AIG on July 11, 2011.

On October 14, 2011, the defendants that had been served filed motions to dismiss the amended complaint, which are currently fully briefed and the Court has taken the motions under advisement. The Relators have not specified in their amended complaint an amount of alleged damages. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

2006 Regulatory Settlements and Related Regulatory Matters

2006 Regulatory Settlements. In February 2006, AIG reached a resolution of claims and matters under investigation with the United States Department of Justice (DOJ), the Securities and Exchange Commission (SEC), the Office of the New York Attorney General (NYAG) and the New York State Department of Insurance (DOI). 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 bid rigging. Nor did the settlements resolve any obligations that AIG may have to state guarantee funds in connection with any of these matters.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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.

In addition to the escrowed funds, $800 million was deposited into, and subsequently disbursed by, a fund under the supervision of the SEC, to resolve claims asserted against AIG by investors, including the securities class action and shareholder lawsuits described below. Additional amounts held in escrow totaling approximately $597 million, including interest thereon, are included in Other assets at March 31, 2012, and, as discussed below, are specifically designated to satisfy regulatory and class-action liabilities related to workers' compensation premium reporting issues. Approximately $338 million of the $597 million of the current total workers' compensation related escrow amount was originally held in an account established as part of the 2006 New York regulatory settlement and referred to as the Workers' Compensation Fund.

On February 1, 2012, AIG was informed by the SEC that AIG had complied with the terms of the settlement order under which AIG had agreed to retain an independent consultant, and as of that date, was no longer subject to such order.

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 in early 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 called for total payments of $26 million by AIG, of which $4.4 million was paid under previous settlement agreements. During the term of the settlement agreements, which run through early 2018, AIG will continue to maintain certain producer compensation disclosure and ongoing compliance initiatives. On April 7, 2010, it was announced that AIG and the Ohio Attorney General entered into a settlement agreement to resolve the Ohio Attorney General's claim concerning producer compensation and insurance placement practices. AIG paid the Ohio Attorney General $9 million as part of that settlement.

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. The examination focused on legacy issues related to AIG's writing and reporting of workers' compensation insurance prior to 1996 and current compliance with legal requirements applicable to such business.

On December 17, 2010, AIG and the lead states reached an agreement to settle all regulatory liabilities arising out of the subjects of the multistate examination. The regulatory settlement agreement, which has been agreed to by all 50 states and the District of Columbia, includes, among other terms: (i) AIG's payment of $100 million in regulatory fines and penalties; (ii) AIG's payment of $46.5 million in outstanding premium taxes; (iii) AIG's agreement to enter into a compliance plan describing agreed-upon specific steps and standards for evaluating AIG's ongoing compliance with state regulations governing the setting of workers' compensation insurance premium rates and the reporting of workers' compensation premiums; and (iv) AIG's agreement to pay up to $150 million in contingent fines in the event that AIG fails to comply substantially with the compliance plan requirements. The $146.5 million in fines, penalties and premium taxes have been funded out of the $338 million originally held in the Workers' Compensation Fund and placed into an escrow account pursuant to the terms of the regulatory settlement agreement. The regulatory settlement originally was contingent upon, among other

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

events: (i) a final, court-approved settlement being reached in all the lawsuits that comprise the Workers' Compensation Premium Reporting Litigation, discussed below, including the putative class action, except that such settlement need not resolve claims between AIG and the Liberty Mutual Group; and (ii) a settlement being reached and consummated between AIG and certain state insurance guaranty funds that may assert claims against AIG for underpayment of guaranty-fund assessments. AIG and the other parties to the regulatory settlement agreement subsequently agreed to waive the settlement contingency of a final settlement in the lawsuits that comprise the Workers' Compensation Premium Reporting Litigation, provided that such waiver will not become effective until AIG consummates a settlement with the state insurance guaranty associations.

As of March 31, 2012, AIG has an accrued liability for the amounts payable under the proposed settlement.

Litigation Related to the Matters Underlying the 2006 Regulatory Settlements

AIG and certain present and former directors and officers of AIG have been named in various actions related to the matters underlying the 2006 Regulatory Settlements. These actions are described below.

The Consolidated 2004 Securities Litigation. 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 (the Consolidated 2004 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 Consolidated 2004 Securities Litigation 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 C.V. Starr & Co., Inc. (Starr), SICO, General Reinsurance Corporation (General Re), and PwC, among others. The lead plaintiff alleges, among other things, that AIG: (i) concealed that it engaged in anti-competitive conduct through alleged payment of contingent commissions to brokers and participation in illegal bid-rigging; (ii) concealed that it used "income smoothing" products and other techniques to inflate its earnings; (iii) concealed that it marketed and sold "income smoothing" insurance products to other companies; and (iv) misled investors about the scope of government investigations. In addition, the lead plaintiff alleges that Maurice R. Greenberg, AIG's former Chief Executive Officer, manipulated AIG's stock price. The lead plaintiff asserts claims for violations of Sections 11 and 15 of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 20(a) and Section 20A of the Exchange Act.

On July 14, 2010, AIG approved the terms of a settlement (the Settlement) with lead plaintiffs. The Settlement is conditioned on, among other things, court approval and a minimum level of shareholder participation. Under the terms of the Settlement, if consummated, AIG would pay an aggregate of $725 million.

On July 20, 2010, at the joint request of AIG and lead plaintiffs, the District Court entered an order staying all deadlines in the case. On November 30, 2010, AIG and lead plaintiffs executed their agreement of settlement and compromise. On November 30, 2010, lead plaintiffs filed a motion for preliminary approval of the settlement with AIG.

On October 5, 2011, the District Court granted lead plaintiffs' motion for preliminary approval of the settlement between AIG and lead plaintiffs. Notices to class members of the settlement were mailed on October 14, 2011. On December 2, 2011, Lead Plaintiff filed a motion for final approval of the settlement and for attorneys' fees. Objections to the settlement and requests to be excluded from the settlement were due to the District Court by December 30, 2011. Only two shareholders objected to the settlement, and 25 shareholders claiming to hold less than 1.5 percent of AIG's outstanding shares at the end of the class period submitted timely and valid requests to opt out of the class. Of those 25 shareholders, seven are investment funds controlled by the same investment group, and that investment group is the only opt-out who held more than 1,000 shares at the end of the class period. By order dated February 2, 2012, the District Court granted lead plaintiffs' motion for final approval of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

the Settlement between AIG and lead plaintiffs. AIG has fully funded the amount of the Settlement into an escrow account.

On January 23, 2012, AIG and the Florida pension funds, who had brought a separate securities fraud action, executed a settlement agreement. Under the terms of the settlement agreement, AIG paid $4 million.

On February 17, 2012 and March 6, 2012, two objectors appealed the final approval of the settlement. The settlement with the Florida pension funds can be terminated by AIG if either of the objectors' appeals is successful.

The Multi-District Litigation. Commencing in 2004, policyholders brought multiple federal antitrust and Racketeer Influenced and Corrupt Organizations Act (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 one or more broad conspiracies 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 Benefits 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 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 that defendants engaged in a number of overlapping "broker-centered" conspiracies to allocate customers through the payment of contingent commissions to brokers and through purported "bid-rigging" practices. It also alleges that the insurer and broker defendants participated in a "global" conspiracy not to disclose to policyholders the payment of contingent commissions. 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 of customer allocation through steering and bid-rigging made in the Commercial Complaint.

The District Court, in connection with the Commercial and Employee Benefits Complaints, 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. Plaintiffs appealed the dismissal of the Commercial Complaint to the United States Court of Appeals for the Third Circuit (the Third Circuit) on October 10, 2007. On January 14, 2008, the District Court granted summary judgment to defendants on plaintiffs' ERISA claims in the Employee Benefits Complaint. On February 12, 2008, plaintiffs filed a notice of appeal to the Third Circuit with respect to the dismissal of the antitrust and RICO claims in the Employee Benefits Complaint.

On August 16, 2010, the Third Circuit affirmed the dismissal of the Employee Benefits Complaint in its entirety, affirmed in part and vacated in part the District Court's dismissal of the Commercial Complaint, and remanded

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

the case for further proceedings consistent with the opinion. Specifically, the Third Circuit affirmed the dismissal of plaintiffs' broader antitrust and RICO claims, but the Court reversed the District Court's dismissal of alleged "Marsh-centered" antitrust and RICO claims based on allegations of bid-rigging involving excess casualty insurance. The Court remanded these Marsh-centered claims to the District Court for consideration as to whether plaintiffs had adequately pleaded them. Because the Third Circuit vacated in part the judgment dismissing the federal claims in the Commercial Complaint, the Third Circuit also vacated the District Court's dismissal of the state-law claims in the Commercial Complaint.

On October 1, 2010, defendants named in the Commercial Complaint filed motions to dismiss the remaining remanded claims in the District of New Jersey. On March 18, 2011, AIG and certain other defendants announced that they had entered into a memorandum of understanding (MOU) with class plaintiffs to settle the claims asserted against them in the Commercial Complaint. As of May 20, 2011, the parties to the MOU and certain other defendants entered into a Stipulation of Settlement. Under the terms of the settlement, it is anticipated that AIG will pay $6.75 million of a total aggregate settlement amount of approximately $37 million. The settlement is conditioned on final court approval. Plaintiffs' attorneys' fees and litigation expenses, and the aggregate costs of notice and claims administration in connection with the settlement, would be paid from the settlement fund.

On June 20, 2011, the Court "administratively terminated" without prejudice the various Defendants' pending motions to dismiss the proposed class plaintiffs' operative pleading indicating that those motions may be re-filed after adjudication of all issues related to the proposed class settlement and subject to the approval of the Magistrate Judge. On June 27, 2011, the Court preliminarily approved the class settlement. On June 30, 2011, AIG placed its portion of the total settlement payment into escrow. If the settlement does not receive final court approval, those funds will revert to AIG. A final fairness hearing was held on September 14, 2011. On March 30, 2012, the Court granted final approval of the class settlement. On April 27, 2012, a notice of appeal of the order granting final approval was filed.

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. In one of those consolidated actions, *Palm Tree Computer Systems, Inc. v. Ace USA (Palm Tree)*, which is brought by two named plaintiffs on behalf of a proposed class of insurance purchasers, the plaintiffs allege specifically with respect to their claim for breach of fiduciary duty against the insurer defendants that neither named plaintiff nor any member of the proposed class suffered damages "exceeding $74,999 each." Plaintiffs do not specify damages as to other claims against the insurer defendants in the complaint. The plaintiffs in *Palm Tree* have not yet sought certification of the class. Because discovery has not been completed and the District Court has not determined if a class action is appropriate or the size or scope of any class, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Palm Tree* litigation. In another consolidated action, *The Heritage Corp. of South Florida v. National Union Fire Ins. Co. (Heritage)*, an individual plaintiff alleges damages "in excess of $75,000." Because discovery has not been completed and a precise amount of damages has not been specified, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the *Heritage* litigation. For the remaining consolidated actions, as of February, 2012, plaintiffs have not specified an amount of alleged damages arising from these actions. AIG is therefore unable to reasonably estimate the possible loss or range of losses, if any, arising from these matters.

In June 2011, the Court ordered counsel for each of the tag-along actions in the Multi-District Litigation (including the following cases where AIG is a defendant: *Avery Dennison Corp. v. Marsh & McLennan Companies, Inc.; Henley Management Co. v. Marsh Inc.; Heritage; and Palm Tree*) to submit a letter to the Court within 30 days of the date of that order that outlines the effect the current proposed class settlement will have on their respective cases if finalized in due course. In July 2011, several plaintiffs submitted letters to the Court. Defendants submitted an omnibus response to the Court on August 19, 2011.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

On October 17, 2011, the Court conducted a conference and subsequently ordered that discovery and motion practice may proceed in all tag-along actions. The parties were ordered to submit a proposed scheduling order for discovery and any additional motion practice to the Court by October 31, 2011.

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 four cases have proceeded; one each in Florida and New Jersey state courts that have settled, and one each in Texas and Kansas state courts have proceeded (although discovery is stayed in both actions). In the Texas action, plaintiff filed its Fourth Amended Petition on July 13, 2009 and on August 14, 2009, defendants filed renewed special exceptions. Plaintiff in the Texas action alleges a "maximum" of $125 million in total damages (after trebling). Because the Court has not rendered a decision on defendants' renewed special exceptions and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the Texas action. In the Kansas action, defendants are appealing to the Kansas Supreme Court the trial court's denial of defendants' motion to dismiss on statute of limitations grounds. In the Kansas action, the plaintiff alleges damages in an amount "greater than $75,000" for each of the three claims directed against AIG in the complaint. Because the Kansas Supreme Court has not decided the appeal of the trial court's denial of defendants' motion to dismiss, a precise amount of damages has not been specified and discovery has not been completed, AIG is unable to reasonably estimate the possible loss or range of losses, if any, from the Kansas action.

Workers' Compensation Premium Reporting. On May 24, 2007, the National Council on Compensation Insurance (NCCI), on behalf of the participating members of the National Workers' Compensation Reinsurance Pool (the NWCRP), filed a lawsuit in the United States District Court for the Northern District of Illinois (Northern District of Illinois) against AIG with respect to the underpayment by AIG of its residual market assessments for workers' compensation insurance. The complaint alleged 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 sought 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 NCCI (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 Group (Liberty Mutual) filed third-party counterclaims against AIG, certain of its subsidiaries, and former AIG executives. On August 23, 2009, the Court granted AIG's motion to dismiss the NCCI complaint for lack of standing. On September 25, 2009, AIG filed its First Amended Complaint, reasserting its RICO claims against certain insurance companies that both underreported their workers' compensation premium and served on the NWCRP Board, and repleading its fraud and other state law claims. Defendants filed a motion to dismiss the First Amended Complaint on October 30, 2009. On October 8, 2009, Liberty Mutual filed an amended counterclaim against AIG. The amended counterclaim is substantially similar to the complaint initially filed by NCCI, but also seeks damages related to non-NWCRP states, guaranty funds, and special assessments, in addition to asserting claims for other violations of state law. The amended counterclaim also removes as defendants the former AIG executives. On October 30, 2009, AIG filed a motion to dismiss the Liberty amended counterclaim.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

On April 1, 2009, Safeco Insurance Company of America (Safeco) and Ohio Casualty Insurance Company (Ohio Casualty) filed a complaint in 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 was styled as an "alternative complaint," should the Court grant AIG's motion to dismiss the NCCI 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 August 28, 2009, the class action plaintiffs filed an amended complaint, removing the AIG executives as defendants. On October 30, 2009, AIG filed a motion to dismiss the amended complaint. On July 16, 2010, Safeco and Ohio Casualty filed their motion for class certification, which AIG opposed on October 8, 2010.

On July 1, 2010, the Court ruled on the pending motions to dismiss that were directed at all parties' claims. With respect to the underreporting NWCRP companies' and board members' motion to dismiss AIG's first amended complaint, the Court denied the motion to dismiss all counts except AIG's claim for unjust enrichment, which it found to be precluded by the surviving claims for breach of contract. With respect to NCCI and the NWCRP's motion to dismiss AIG's first amended complaint, the Court denied the NCCI and the NWCRP's motions to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. With respect to AIG's motions to dismiss Liberty's counterclaims and the class action complaint, the Court denied both motions, except that it dismissed the class claim for promissory estoppel. On July 30, 2010, the NWCRP filed a motion for reconsideration of the Court's ruling denying its motion to dismiss AIG's claims for an equitable accounting and an action on an open, mutual, and current account. The Court denied the NWCRP's motion for reconsideration on September 16, 2010. The plaintiffs filed a motion for class certification on July 16, 2010. AIG opposed the motion.

On January 5, 2011, AIG executed a term sheet with a group of intervening plaintiffs, made up of seven participating members of the NWCRP that filed a motion to intervene in the class action for the purpose of settling the claims at issue on behalf of a settlement class. The proposed class-action settlement would require AIG to pay $450 million to satisfy all liabilities to the class members arising out of the workers' compensation premium reporting issues, a portion of which would be funded out of the remaining amount held in the Workers' Compensation Fund less any amounts previously withdrawn to satisfy AIG's regulatory settlement obligations, as addressed above. On January 13, 2011, their motion to intervene was granted. On January 19, 2011, the intervening class plaintiffs filed their Complaint in Intervention. On January 28, 2011, AIG and the intervening class plaintiffs entered into a settlement agreement embodying the terms set forth in the January 5, 2011 term sheet and filed a joint motion for certification of the settlement class and preliminary approval of the settlement. If approved by the Court (and such approval becomes final), the settlement agreement will resolve and dismiss with prejudice all claims that have been made or that could have been made in the consolidated litigations pending in the Northern District of Illinois arising out of workers' compensation premium reporting, including the class action, other than claims that are brought by any class member that opts out of the settlement. On April 29, 2011, Liberty Mutual filed papers in opposition to preliminary approval of the proposed settlement and in opposition to certification of a settlement class, in which it alleged AIG's actual exposure, should the class action continue through judgment, to be in excess of $3 billion. AIG disputes and will defend against this allegation. The Court held a hearing on the motions for class certification and preliminary approval of the proposed class-action settlement on June 21 and July 25, 2011.

On August 1, 2011, the Court issued an opinion and order granting the motion for class certification and preliminarily approving the proposed class-action settlement, subject to certain minor modifications that the Court noted the parties already had agreed to make. The opinion and order became effective upon the entry of a separate Findings and Order Preliminarily Certifying a Settlement Class and Preliminarily Approving Proposed Settlement on August 5, 2011. Liberty Mutual sought leave from the United States Court of Appeals for the Seventh Circuit to appeal the August 5, 2011 class certification decision, which was denied on August 19, 2011. Notice of the settlement was issued to the class members on August 19, 2011 advising that any class member

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

wishing to opt out of or object to the class-action settlement was required to do so by October 3, 2011. RLI Insurance Company and its affiliates, which were to receive less than one thousand dollars under the proposed settlement, sent the only purported opt-out notice. Liberty Mutual, including its subsidiaries Safeco and Ohio Casualty, and the Kemper group of insurance companies, through their affiliate Lumbermens Mutual Casualty, were the only two objectors. AIG and the settling class plaintiffs filed responses to the objectors' submissions on October 28, 2011. The Court conducted a final fairness hearing on November 29, 2011. Immediately prior to the hearing, Lumbermens Mutual Casualty withdrew its objection to the settlement. On December 21, 2011, the Court issued an order granting final approval of the settlement, but staying that ruling pending a forthcoming opinion. On February 28, 2012, the Court entered a final order and judgment approving the class action settlement. Liberty Mutual, Safeco and Ohio Casualty filed notices of their intent to appeal the Court's final order and judgment. The Court of Appeals for the Seventh Circuit has consolidated the appeals.

The $450 million settlement amount, which is currently held in escrow pending final resolution of the class-action settlement, was funded in part from the approximately $191.5 million remaining in the Workers' Compensation Fund, after the transfer of the $146.5 million in fines, penalties, and premium taxes discussed in the NAIC Examination of Workers' Compensation Premium Reporting matter above into a separate escrow account pursuant to the regulatory settlement agreement. In the event that the proposed class action settlement is not approved, the litigation will resume. As of March 31, 2012, AIG has an accrued liability equal to the amounts payable under the settlement.

Litigation Matters Relating to AIG's 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 intervened in the first-filed action, and the second-filed action was 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 intervenors 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 intervenors 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, assert that information concerning the excess policy was publicly disclosed months prior to the approval of the settlement, that the claims are barred by the statute of limitations, and that the statute cannot be tolled in light of the public disclosure of the excess coverage. The plaintiffs and intervenors, 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.

In November 2007, the trial court dismissed the intervenors' complaint against the Lawyer Defendants, and the Alabama Supreme Court affirmed that dismissal in September 2008. After the case was sent back down to the trial court, the intervenors retained additional counsel and filed an Amended Complaint in Intervention that named only Caremark and AIG and various subsidiaries as defendants, purported to bring claims against all defendants for deceit and conspiracy to deceive, and purported to bring a claim against AIG and its subsidiaries for aiding and abetting Caremark's alleged deception. The defendants moved to dismiss the Amended Complaint in Intervention, and the plaintiffs moved to disqualify all of the lawyers for the intervenors because, among other things, the newly retained firm had previously represented Caremark. The intervenors, in turn, moved to disqualify the lawyers for the plaintiffs in the first-filed action. The cross-motions to disqualify were withdrawn after the two

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

sets of plaintiffs agreed that counsel for the original plaintiffs would act as lead counsel, and intervenors also withdrew their Amended Complaint in Intervention. The trial court approved all of the foregoing steps and, in April 2009, established a schedule for class action discovery that was to lead to a hearing on class certification in March 2010. The Court has since appointed a special master to oversee class action discovery and has directed the parties to submit a new discovery schedule after certain discovery disputes are resolved. Class discovery is ongoing. A class certification hearing has been set for May 30, 2012.

As of May 3, 2012, the parties have not completed class action discovery, general discovery has not commenced, and the court has not determined if a class action is appropriate or the size or scope of any class. As a result, AIG is unable to reasonably estimate the possible loss or range of losses, if any, arising from the litigation.

(B) COMMITMENTS

Flight Equipment

At March 31, 2012, ILFC had committed to purchase 247 new aircraft, including 18 aircraft through sale-leaseback transactions with airlines, three used aircraft, and nine new spare engines deliverable from 2012 through 2019, with aggregate estimated total remaining payments of approximately $18.7 billion. ILFC also has the right to purchase an additional 50 Airbus A320neo family narrowbody aircraft. ILFC will be required to find lessees for any aircraft acquired and to arrange financing for a substantial portion of the purchase price.

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 $2.8 billion at March 31, 2012.

(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 loss reserves will not develop adversely and have a material adverse effect on its results of operations. Estimation of ultimate net losses, loss expenses and loss reserves is a complex process for long-tail casualty lines of business, which include general liability, commercial automobile liability, workers' compensation, excess casualty and crisis management coverages, insurance and risk management programs for large corporate customers and other customized structured insurance products, as well as excess and umbrella liability, directors and officers and products liability. 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. 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 economic conditions in the United States and abroad, changes in the legal, regulatory, judicial and social environment, changes in medical cost trends (inflation, intensity and utilization of medical services), underlying policy pricing, terms and conditions, and claims handling practices.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

(D) GUARANTEES

Subsidiaries

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.

In connection with AIGFP's leasing business, AIGFP has issued, in a limited number of transactions, standby letters of credit or similar facilities to equity investors in an amount equal to the termination value owing to the equity investor by the lessee in the event of a lessee default (the equity termination value). The total amount outstanding at March 31, 2012 was $437 million. In those transactions, AIGFP has agreed to pay such amount if the lessee fails to pay. The amount payable by AIGFP is, in certain cases, partially offset by amounts payable under other instruments typically equal to the present value of a scheduled payment to be made by AIGFP. In the event that AIGFP is required to make a payment to the equity investor, the lessee is unconditionally obligated to reimburse AIGFP. To the extent that the equity investor is paid the equity termination value from the standby letter of credit and/or other sources, including payments by the lessee, AIGFP takes an assignment of the equity investor's rights under the lease of the underlying property. Because the obligations of the lessee under the lease transactions are generally economically defeased, lessee bankruptcy is the most likely circumstance in which AIGFP would be required to pay.

Asset Dispositions

General

AIG is subject to financial guarantees and indemnity arrangements in connection with the completed sales of businesses pursuant to its asset disposition plan. The various arrangements may be triggered by, among other things, declines in asset values, the occurrence of specified business contingencies, the realization of contingent liabilities, developments in litigation or breaches of representations, warranties or covenants provided by AIG. These arrangements are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or are not applicable.

AIG is unable to develop a reasonable estimate of the maximum potential payout under certain of these arrangements. Overall, AIG believes that it is unlikely it will have to make any material payments related to completed sales under these arrangements, and no material liabilities related to these arrangements have been recorded in the Consolidated Balance Sheet. See Notes 1 and 13 herein for additional information on sales of businesses and asset dispositions.

ALICO Sale

Pursuant to the terms of the American Life Insurance Company (ALICO) stock purchase agreement, AIG has agreed to provide MetLife with certain indemnities, the most significant of which include:

- Indemnification related to breaches of general representations and warranties with an aggregate deductible of $125 million and a maximum payout of $2.25 billion. The indemnification extends for 21 months after November 1, 2010.

- Indemnifications related to specific product, investment, litigation and other matters that are excluded from the general representations and warranties indemnity. These indemnifications provide for various deductible amounts, which in certain cases are zero, and maximum exposures, which in certain cases are unlimited, and extend for various periods after the completion of the sale.

Tax indemnifications related to insurance reserves that extend for taxable periods ending on or before December 31, 2013 and that are limited to an aggregate of $200 million, and certain other tax-related representations and warranties that extend to the expiration of the statute of limitations and are subject to an aggregate deductible of $50 million.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

In connection with the indemnity obligations described above, as of March 31, 2012, approximately $1.6 billion of proceeds from the sale of ALICO were on deposit in an escrow arrangement. The amount required to be held in escrow declines to zero in April 2013, with claims submitted related to the indemnifications reducing the amount that can be released to AIG.

AIG Star and AIG Edison Sale

Pursuant to the terms of the AIG Star and AIG Edison stock purchase agreement, AIG has agreed to provide Prudential Financial, Inc. with certain indemnities, the most significant of which is indemnification related to breaches of general representations and warranties that exceed 4.1 billion Yen ($49.5 million at the March 31, 2012 exchange rate), with a maximum payout of 102 billion Yen ($1.2 billion at the March 31, 2012 exchange rate). Except for certain specified representations and warranties that may have a longer survival period, the indemnification extends until November 1, 2012.

Other

See Note 7 herein for commitments and guarantees associated with VIEs.

See Note 8 herein for disclosures on derivatives.

See Note 14 herein for additional disclosures on guarantees of outstanding debt.

10. TOTAL EQUITY AND EARNINGS (LOSS) PER SHARE

SHARES OUTSTANDING

The following table presents a rollforward of outstanding shares:

	Preferred Stock						
	AIG Series E	**AIG Series F**	**AIG Series C**	**AIG Series G**	**Common Stock Issued**	**Treasury Stock**	**Outstanding Shares**
Three Months Ended March 31, 2012							
Shares, beginning of year	**-**	**-**	**-**	**-**	**1,906,568,099**	**(9,746,617)**	**1,896,821,482**
Issuances	**-**	**-**	**-**	**-**	**46,453**	**27,654**	**74,107**
Shares repurchased	**-**	**-**	**-**	**-**	**-**	**(103,448,276)**	**(103,448,276)**
Shares, end of period	**-**	**-**	**-**	**-**	**1,906,614,552**	**(113,167,239)**	**1,793,447,313**
Three Months Ended March 31, 2011							

Shares, beginning of year	400,000	300,000	100,000	-	147,124,067	(6,660,908)	140,463,159
Issuances	-	-	-	20,000	1,218,766	56	1,218,822
Shares exchanged*	(400,000)	(300,000)	(100,000)	-	1,655,037,962	-	1,655,037,962
Shares, end of period	-	-	-	20,000	1,803,380,795	(6,660,852)	1,796,719,943

* *See Note 1 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for further discussion of shares exchanged in connection with the Recapitalization.*

Repurchases of Equity Securities

In the first quarter of 2012, AIG's Board of Directors (the Board) authorized the repurchase of shares of AIG Common Stock with an aggregate purchase amount of up to $3 billion from time to time in the open market, private purchases, through derivative or automatic purchase contracts, or otherwise. This authorization replaced all prior AIG Common Stock repurchase authorizations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

On March 13, 2012, the Department of the Treasury, as the selling shareholder, closed the sale of 206,896,552 shares of AIG Common Stock, at a public offering price of $29.00 per share. AIG purchased 103,448,276 shares of AIG Common Stock in the Offering at the public offering price for an aggregate purchase amount of $3.0 billion, thus utilizing the full authorization.

Dividends

Payment of future dividends depends on the regulatory framework that will ultimately be applicable to AIG. This framework will depend on, among other things, whether AIG is treated as either a systemically important financial institution (SIFI) or as a savings and loan holding company under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). The level of the Department of the Treasury's ownership in AIG may affect AIG's regulatory status. In addition, dividends will be payable on AIG's Common Stock only when, as and if declared by the Board in its discretion, from funds legally available therefor. In considering whether to pay a dividend or repurchase shares of AIG Common Stock, the Board will take into account such matters as AIG's financial position, the performance of its businesses, its consolidated financial condition, results of operations and liquidity, available capital, the existence of investment opportunities, contractual, legal and regulatory restrictions on the payment of dividends by subsidiaries to AIG, rating agency considerations, including the potential effect on AIG's debt ratings, and such other factors as AIG's Board may deem relevant. AIG has not paid any cash dividends in 2011 or 2012.

See Note 18 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for discussion of restrictions on payments of dividends by AIG subsidiaries.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a rollforward of Accumulated other comprehensive income:

(in millions)	**Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken**	**Unrealized Appreciation (Depreciation) of All Other Investments**	**Foreign Currency Translation Adjustments**	**Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities**	**Change in Retirement Plan Liabilities Adjustment**	**Total**
Balance, December 31, 2011, net of tax	**$ (736)**	**$ 7,891**	**$ (1,028)**	**$ (17)**	**$ (957)**	**$ 5,153**
Change in unrealized appreciation of investments	**1,109**	**1,602**	**-**	**-**	**-**	**2,711**
Change in deferred acquisition costs adjustment and other	**(65)**	**(314)**	**-**	**-**	**-**	**(379)**
Change in future policy benefits	**(41)**	**75**	**-**	**-**	**-**	**34**
Change in foreign currency translation adjustments	**-**	**-**	**87**	**-**	**-**	**87**
Change in net derivative gains arising from cash flow hedging activities	**-**	**-**	**-**	**4**	**-**	**4**
Net actuarial gain	**-**	**-**	**-**	**-**	**41**	**41**
Prior service credit	**-**	**-**	**-**	**-**	**(12)**	**(12)**
Change attributable to divestitures and deconsolidations	**-**	**-**	**-**	**-**	**-**	**-**
Deferred tax asset (liability)	**(390)**	**(382)**	**4**	**18**	**(11)**	**(761)**
Total other comprehensive income	**613**	**981**	**91**	**22**	**18**	**1,725**
Noncontrolling interests	**-**	**4**	**1**	**-**	**-**	**5**
Balance, March 31, 2012, net of tax	**$ (123)**	**$ 8,868**	**$ (938)**	**$ 5**	**$ (939)**	**$ 6,873**
Balance, December 31, 2010, net of tax	$ (659)	$ 8,888	$ 298	$ (34)	$ (869)	$ 7,624
Cumulative effect of change in accounting principle	-	283	(364)	-	-	(81)
Change in unrealized appreciation of investments	646	(69)	-	-	-	577
Change in deferred acquisition costs adjustment and other	(87)	(71)	-	-	-	(158)
Change in future policy benefits	-	-	-	-	-	-
Change in foreign currency translation adjustments	-	-	649	-	-	649
	-	-	-	18	-	18

Change in net derivative losses arising from cash flow hedging activities						
Net actuarial gain	-	-	-	-	3	3
Prior service credit	-	-	-	-	(1)	(1)
Change attributable to divestitures and deconsolidations	53	(1,129)	(1,506)	-	248	(2,334)
Deferred tax asset (liability)	(216)	462	340	(5)	(115)	466
Total other comprehensive income (loss)	396	(807)	(517)	13	135	(780)
Acquisition of noncontrolling interest	-	78	84	-	(19)	143
Noncontrolling interests	3	(3)	36	-	-	36
Balance, March 31, 2011, net of tax	$ (266)	$ 8,445	$ (535)	$ (21)	$ (753)	$ 6,870

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The following table presents the other comprehensive income (loss) reclassification adjustments for the three months ended March 31, 2012 and 2011:

(in millions)	Unrealized Appreciation (Depreciation) of Fixed Maturity Investments on Which Other-Than-Temporary Credit Impairments Were Taken	Unrealized Appreciation (Depreciation) of All Other Investments	Foreign Currency Translation Adjustments	Net Derivative Gains (Losses) Arising from Cash Flow Hedging Activities	Change in Retirement Plan Liabilities Adjustment	Total
Three Months Ended March 31, 2012						
Unrealized change arising during period	**$ 1,001**	**$ 2,323**	**$ 87**	**$ (1)**	**$ -**	**$ 3,410**
Less: Reclassification adjustments included in net income	**(2)**	**960**	**-**	**(5)**	**(29)**	**924**
Total other comprehensive income, before income tax expense (benefit)	**1,003**	**1,363**	**87**	**4**	**29**	**2,486**
Less: Income tax expense (benefit)	**390**	**382**	**(4)**	**(18)**	**11**	**761**
Total other comprehensive income, net of income tax expense (benefit)	**$ 613**	**$ 981**	**$ 91**	**$ 22**	**$ 18**	**$ 1,725**
Three Months Ended March 31, 2011						
Unrealized change arising during period	$ 542	$ (342)	$ 649	$ -	$ -	$ 849
Less: Reclassification adjustments included in net income	(70)	927	1,506	(18)	(250)	2,095
Total other comprehensive income (loss), before income tax expense (benefit)	612	(1,269)	(857)	18	250	(1,246)
Less: Income tax expense (benefit)	216	(462)	(340)	5	115	(466)
Total other comprehensive income (loss), net of income tax expense (benefit)	$ 396	$ (807)	$ (517)	$ 13	$ 135	$ (780)

NONCONTROLLING INTERESTS

During the quarter ended March 31, 2012, the remaining liquidation preference of the AIA SPV Preferred Interests was paid down in full. See Note 1 herein for a description of the transactions that provided funds to pay down the remaining liquidation preference.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

The following table presents a rollforward of non-controlling interests:

	Redeemable Noncontrolling interests			Non-redeemable Noncontrolling interests		
(in millions)	**Held by Department of Treasury**	**Other**	**Total**	**Held by FRBNY**	**Other**	**Total**
Three Months Ended March 31, 2012						
Balance, beginning of year	**$ 8,427**	**$ 96**	**$ 8,523**	**$ -**	**$ 855**	**$ 855**
Repayment to Department of the Treasury	**(8,635)**	**-**	**(8,635)**	**-**	**-**	**-**
Net contributions	**-**	**18**	**18**	**-**	**28**	**28**
Consolidation (deconsolidation)	**-**	**(5)**	**(5)**	**-**	**-**	**-**
Comprehensive income:						
Net income	**208**	**10**	**218**	**-**	**23**	**23**
Accumulated other comprehensive income, net of tax:						
Unrealized gains on investments	**-**	**2**	**2**	**-**	**2**	**2**
Foreign currency translation adjustments	**-**	**-**	**-**	**-**	**1**	**1**
Total accumulated other comprehensive income, net of tax	**-**	**2**	**2**	**-**	**3**	**3**
Total comprehensive income	**208**	**12**	**220**	**-**	**26**	**26**
Other	**-**	**-**	**-**	**-**	**(16)**	**(16)**
Balance, end of period	**$ -**	**$ 121**	**$ 121**	**$ -**	**$ 893**	**$ 893**
Three Months Ended March 31, 2011						
Balance, beginning of year	$ -	$ 434	$ 434	$ 26,358	$ 1,562	$ 27,920
Repurchase of SPV preferred interests in connection with Recapitalization	-	-	-	(26,432)	-	(26,432)
Exchange of consideration for preferred stock in connection with Recapitalization	20,292	-	20,292	-	-	-
Repayment to Department of the Treasury	(9,146)	-	(9,146)	-	-	-
Net contributions	-	(26)	(26)	-	(96)	(96)
Consolidation (deconsolidation)	-	(125)	(125)	-	(109)	(109)
Acquisition of noncontrolling interest	-	-	-	-	(509)	(509)
Comprehensive income:						
Net income	178	9	187	74	(57)	17
Accumulated other comprehensive income, net of tax: Unrealized gains on investments	-	(1)	(1)	-	1	1
Foreign currency translation adjustments	-	-	-	-	36	36
Total accumulated other comprehensive income (loss), net of tax	-	(1)	(1)	-	37	37
Total comprehensive income (loss)	178	8	186	74	(20)	54
Other	-	(13)	(13)	-	(9)	(9)

Balance, end of period	$ 11,324	$ 278	$ 11,602	$ -	$ 819	$ 819

EARNINGS (LOSS) PER SHARE (EPS)

Basic and diluted earnings (loss) per share are based on the weighted average number of common shares outstanding, adjusted to reflect all stock dividends and stock splits. Diluted EPS 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 EPS was not affected by outstanding stock purchase contracts. Diluted EPS is determined considering the potential dilution

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

from outstanding stock purchase contracts using the treasury stock method and was not affected by the previously outstanding stock purchase contracts because they were not dilutive.

The following table presents the computation of basic and diluted EPS:

Three Months Ended March 31, ***(dollars in millions, except per share data)***		**2012**		**2011**
Numerator for EPS:				
Income (loss) from continuing operations	**$**	**3,436**	$	(1,084)
Net income (loss) from continuing operations attributable to noncontrolling interests:				
Nonvoting, callable, junior and senior preferred interests		**208**		252
Other		**33**		(55)
Total net income (loss) from continuing operations attributable to noncontrolling interests		**241**		197
Net income (loss) attributable to AIG from continuing operations		**3,195**		(1,281)
Income (loss) from discontinued operations	**$**	**13**	$	2,585
Net income (loss) from discontinued operations attributable to noncontrolling interests		**-**		7
Net income (loss) attributable to AIG from discontinued operations, applicable to common stock for EPS		**13**		2,578
Deemed dividends to AIG Series E and F Preferred Stock		**-**		(812)
Net income (loss) attributable to AIG common shareholders from continuing operations, applicable to common stock for EPS	**$**	**3,195**	$	(2,093)
Denominator for EPS:				
Weighted average shares outstanding basic		**1,875,972,970**		1,557,748,353
Dilutive shares		**29,805**		-
Weighted average shares outstanding diluted*		**1,876,002,775**		1,557,748,353
EPS attributable to AIG common shareholders:				
Basic:				
Income (loss) from continuing operations	**$**	**1.70**	$	(1.34)
Income (loss) from discontinued operations	**$**	**0.01**	$	1.65
Diluted:				
Income (loss) from continuing operations	**$**	**1.70**	$	(1.34)
Income (loss) from discontinued operations	**$**	**0.01**	$	1.65

* *Dilutive shares are calculated using the treasury stock method and include dilutive shares from share-based employee compensation plans and the warrants issued to the Department of the Treasury in 2009. The number of shares and warrants excluded from diluted shares outstanding were 78 million and 65 million for the three months ended March 31, 2012 and 2011, respectively, because the effect would have been anti-dilutive. Included in the anti-dilutive total for the three months ended March 31, 2012 and 2011 were 75 million and 59 million shares, respectively, representing the weighted average amount of warrants to purchase AIG Common Stock that were issued to shareholders on January 19, 2011.*

Deemed dividends represent the excess of (i) the fair value of the consideration transferred to the Department of the Treasury, which consists of 1,092,169,866 shares of AIG Common Stock, $20.2 billion of redeemable AIA SPV Preferred Interests and preferred interests in the ALICO SPV, and a liability for a commitment by AIG to pay the Department of the Treasury's costs to dispose of all of its shares, over (ii) the carrying value of the Series E Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series E Preferred Stock), and Series F Fixed Rate Non-Cumulative Perpetual Preferred Stock, par value $5.00 per share (the Series F Preferred Stock). The fair value of the AIG Common Stock issued for the Series C Perpetual, Convertible, Participating Preferred Stock, par value $5.00 per share (Series C Preferred Stock) over the carrying value of the Series C Preferred Stock is not a deemed dividend because the Series C Preferred Stock was

Table of Contents

contingently convertible into the 562,868,096 shares of AIG Common Stock for which it was exchanged. See Notes 1 and 17 to the Consolidated Financial Statements in the 2011 Annual Report on Form 10-K for further discussion on the Recapitalization.

11. EMPLOYEE BENEFITS

The following table presents the components of net periodic benefit cost with respect to pensions and other postretirement benefits:

	Pension			Postretirement		
(in millions)	Non-U.S. Plans	U.S. Plans	Total	Non-U.S. Plans	U.S. Plans	Total
Three Months Ended March 31, 2012						
Components of net periodic benefit cost:						
Service cost	**$ 13**	**$ 37**	**$ 50**	**$ 1**	**$ 1**	**$ 2**
Interest cost	**8**	**50**	**58**	**-**	**3**	**3**
Expected return on assets	**(5)**	**(60)**	**(65)**	**-**	**-**	**-**
Amortization of prior service (credit) cost	**(1)**	**(8)**	**(9)**	**-**	**(3)**	**(3)**
Amortization of net (gain) loss	**4**	**29**	**33**	**-**	**-**	**-**
Net periodic benefit cost	**$ 19**	**$ 48**	**$ 67**	**$ 1**	**$ 1**	**$ 2**
Three Months Ended March 31, 2011						
Components of net periodic benefit cost:						
Service cost	$ 22	$ 37	$ 59	$ 1	$ 2	$ 3
Interest cost	11	52	63	1	4	5
Expected return on assets	(7)	(63)	(70)	-	-	-
Amortization of prior service (credit) cost	(2)	-	(2)	-	-	-
Amortization of net (gain) loss	6	11	17	-	-	-
Net periodic benefit cost	$ 30	$ 37	$ 67	$ 2	$ 6	$ 8
Amount associated with discontinued operations	$ 10	$ -	$ 10	$ 1	$ -	$ 1

For the three-month period ended March 31, 2012, AIG contributed $21 million to its U.S. and non-U.S. pension plans and estimates it will contribute an additional $70 million for the remainder of 2012. These estimates are subject to change since contribution decisions are affected by various factors, including AIG's liquidity, market performance and management discretion.

AMENDMENTS TO U.S. PENSION AND POSTRETIREMENT MEDICAL PLANS

In the third quarter of 2011, AIG announced that, effective April 1, 2012, the AIG Retirement and AIG Excess Plans would be converted from a final average pay to a cash balance formula and the retiree medical employer subsidy for the AIG Postretirement Plan would be eliminated for certain employees. The affected plans were remeasured in 2011 to give effect to the amendments in the period that the changes were announced.

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

12. INCOME TAXES

INTERIM TAX CALCULATION METHOD

AIG uses the estimated annual effective tax rate method in computing its interim tax provision. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated, are excluded from the estimated annual effective tax rate. In these cases, the actual tax expense or benefit applicable to that item is treated discretely, and is reported in the same period as the related item. For the three-month period ended March 31, 2012, the tax effects of the gains on ML II and certain dispositions, including a portion of the ordinary shares of AIA and common units of The Blackstone Group L.P., as well as certain actual and projected gains on SunAmerica's available-for-sale securities were treated as discrete items.

INTERIM TAX EXPENSE (BENEFIT)

For the three-month period ended March 31, 2012, the effective tax rate on pretax income from continuing operations was 25.0 percent. The effective tax rate for the three-month period ended March 31, 2012, attributable to continuing operations differs from the statutory tax rate of 35 percent primarily due to tax effects associated with tax exempt interest income and investments in partnerships, and a decrease in the life-insurance-business capital loss carryforward valuation allowance primarily attributable to the actual and projected gains on sales of SunAmerica's available-for-sale securities.

For the three-month period ended March 31, 2011, the effective tax rate on pretax loss from continuing operations was 17.3 percent. The effective tax rate for the three-month period ended March 31, 2011, attributable to continuing operations differed from the statutory rate of 35 percent primarily due to an increase in the valuation allowance attributable to continuing operations for the U.S. consolidated income tax group, tax effects associated with tax exempt interest income, investments in partnerships, and changes in uncertain tax positions.

ASSESSMENT OF DEFERRED TAX ASSET VALUATION ALLOWANCES

The evaluation of the recoverability of AIG's deferred tax asset and the need for a valuation allowance requires AIG to weigh all positive and negative evidence to reach a conclusion that it is more likely than not that all or some portion of the deferred tax asset will not be realized. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed.

AIG's framework for assessing the recoverability of the deferred tax assets requires AIG to consider all available evidence, including:

- the nature, frequency, and amount of cumulative financial reporting income and losses in recent years;
- the sustainability of recent operating profitability of AIG's subsidiaries;
- the predictability of future operating profitability of the character necessary to realize the net deferred tax asset;
- the carryforward period for the capital loss carryforwards, including the effect of reversing taxable temporary differences; and,

prudent and feasible tax planning strategies that would be implemented, if necessary, to protect against the loss of the deferred tax assets.

During the three-month period ended March 31, 2012, AIG has identified certain prudent and feasible tax planning strategies that result in an assessment that a portion of the life insurance business capital loss carryforwards will be realized on a more-likely-than-not basis prior to their expiration. The tax planning strategies are related to the actual and projected sales of available-for-sale securities in the life insurance business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

Additional life insurance business capital loss carryforwards may be realized in the future if and when other prudent and feasible tax planning strategies are identified.

As a result of these tax planning strategies, AIG reached its conclusion that $190 million of the deferred tax asset valuation allowance for AIG's U.S. consolidated income tax group should be released during the three-month period ended March 31, 2012, of which $183 million was allocated to income from continuing operations.

ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

At March 31, 2012 and December 31, 2011, AIG's unrecognized tax benefits, excluding interest and penalties, were $4.2 billion and $4.3 billion, respectively. At both March 31, 2012 and December 31, 2011, AIG's unrecognized tax benefits included $0.7 billion related to tax positions that if recognized would not affect the effective tax rate because they relate to the timing, rather than the permissibility, of the deduction. Accordingly, at March 31, 2012 and December 31, 2011, the amounts of unrecognized tax benefits that, if recognized, would favorably affect the effective tax rate were $3.5 billion and $3.6 billion, respectively.

Interest and penalties related to unrecognized tax benefits are recognized in income tax expense. At March 31, 2012 and December 31, 2011, AIG accrued $707 million and $744 million, respectively, for the payment of interest (net of the federal benefit) and penalties. For the three-month periods ended March 31, 2012 and 2011, AIG recognized $37 million and $35 million, respectively, of income tax benefit for interest net of the federal detriment and penalties.

Although it is reasonably possible that a change in the balance of unrecognized tax benefits may occur within the next twelve months, at this time it is not possible to estimate the range of the change due to the uncertainty of the potential outcomes.

13. DISCONTINUED OPERATIONS

The results of operations for the following sales are presented as discontinued operations through the date of disposition in the 2011 Consolidated Statement of Operations:

See Note 9(D) herein for a discussion of guarantees and indemnifications associated with sales of businesses.

AIG Star and AIG Edison Sale On September 30, 2010, AIG entered into a definitive agreement with Prudential Financial, Inc. for the sale of its Japan-based insurance subsidiaries, AIG Star and AIG Edison, for total consideration of $4.8 billion, including the assumption of certain outstanding debt totaling $0.6 billion owed by AIG Star and AIG Edison. The transaction closed on February 1, 2011 and AIG recognized a pre-tax gain of $3.5 billion on the sale that is reflected in Income (loss) from discontinued operations in the Consolidated Statement of Operations.

Nan Shan Sale On January 12, 2011, AIG entered into an agreement to sell its 97.57 percent interest in Nan Shan Life Insurance Company, Ltd. to a Taiwan-based consortium. For the three months ended March 31, 2011, AIG recorded a pre-tax loss of $305 million.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

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

Three Months Ended March 31, *(in millions)*	**2011**
Revenues:	
Premiums	$ 2,549
Net investment income	712
Net realized capital gains (losses)	369
Other income	5
Total revenues	3,635
Benefits, claims and expenses	3,095
Interest expense allocation	2
Income (loss) from discontinued operations	538
Gain (loss) on sales	3,028
Income (loss) from discontinued operations, before tax expense (benefit)	3,566
Income tax expense (benefit)	981
Income (loss) from discontinued operations, net of income tax	$ 2,585

14. INFORMATION PROVIDED IN CONNECTION WITH OUTSTANDING DEBT

The following condensed consolidating financial statements reflect the results of SunAmerica Financial Group, Inc. (SAFG, Inc.) formerly known as AIG Life Holdings (U.S.), Inc. (AIGLH), a holding company and a wholly owned subsidiary of AIG. AIG provides a full and unconditional guarantee of all outstanding debt of SAFG, Inc.

Table of Contents

American International Group, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(unaudited)*

CONDENSED CONSOLIDATING BALANCE SHEET

(in millions)	American International Group, Inc. (As Guarantor)	SAFG, Inc.	Other Subsidiaries	Reclassifications and Eliminations	Consolidated AIG
March 31, 2012					
Assets:					
Short-term investments	$ 11,871	$ -	$ 10,968	$ (2,050)	$ 20,789
Other investments[(a)]	9,892	-	384,947	(8,667)	386,172
Total investments	21,763	-	395,915	(10,717)	406,961
Cash	86	-	1,229	-	1,315
Loans to subsidiaries[(b)]	36,165	-	(36,165)	-	-
Debt issuance costs	193	-	303	-	496
Investment in consolidated subsidiaries[(b)]	72,282	34,243	(23,768)	(82,757)	-
Other assets, including current and deferred income taxes	24,882	2,724	122,463	(4,438)	145,631
Total assets	$ 155,371	$ 36,967	$ 459,977	$ (97,912)	$ 554,403
Liabilities:					
Insurance liabilities	$ -	$ -	$ 282,526	$ (277)	$ 282,249
Other long-term debt	36,658	1,638	46,528	(8,728)	76,096
Other liabilities, including intercompany balances[(a)(c)]	14,639	1,729	81,364	(6,139)	91,593
Loans from subsidiaries[(b)]	623	237	(860)	-	-
Total liabilities	51,920	3,604	409,558	(15,144)	449,938
Redeemable noncontrolling interests (see Note 1):					
Nonvoting, callable, junior preferred interests held by Department of the Treasury	-	-	-	-	-
Other	-	-	28	93	